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engine

98

TESMA INTERNATIONAL INC.

ANNUAL REPORT

THE ELEMENTS OF HIGH PERFORMANCE

trans

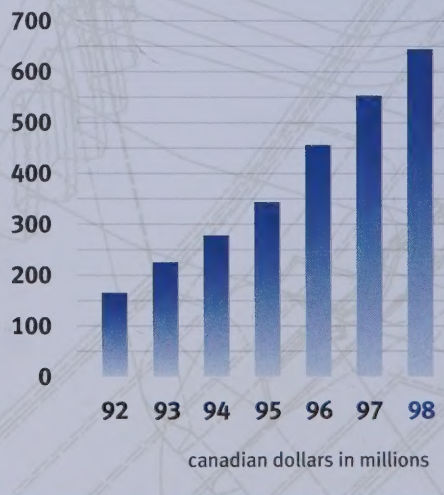
fuel

the elements of high performance

Tesma International Inc. is a global supplier of highly engineered engine, transmission and fueling systems and components for the automotive industry. Tesma's strong market presence and strategy for continuing growth has enabled the Company to experience an annual compound growth rate in excess of 25 percent since 1992. The Company's growth in the past and our enthusiastic outlook for the future results from Tesma's unique focus on **innovation, engineering** and **performance.**

Tesma employs over 3,000 people at 19 manufacturing divisions in North America and Europe. Tesma Class A shares are listed on the Toronto Stock Exchange (TSM.A) and the NASDAQ National Market (TSMAF).

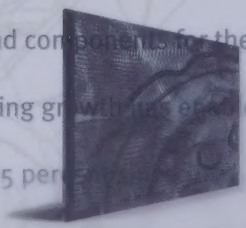
Sales grew by 17% in 1998.



contents

the elements of high performance

Tesma International Inc. is a global supplier of highly engineered engine, transmission and fueling systems and components for the automotive industry. Tesma's strong market presence and strategy for continuing growth has enabled the Company to experience an annual compound growth rate in excess of 25 per cent. The Company's growth in the past and our enthusiastic outlook for the future results from Tesma's unique focus on innovation, engineering and performance.



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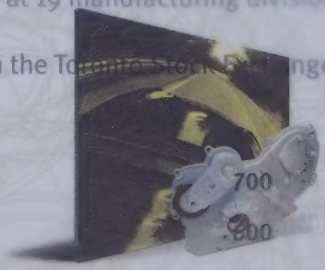


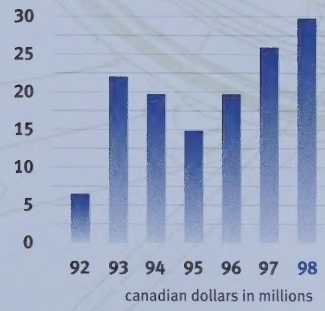
Sales grew by 17% in 1998.

contents

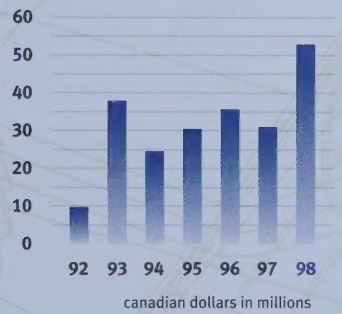
financial accomplishments

for the year	change	1998	1997
		canadian dollars in millions	
Sales	+ 17%	$ 645.9	$ 551.5
Income before litigation settlement and taxes	+ 30%	59.5	45.7
Net income	+ 12%	29.7	26.5
Research & development expenditures	+ 8%	14.1	13.1
Operating cash flow	+ 72%	53.2	30.9
at year end			
Cash		$ 44.0	$ 75.8
Total assets		399.3	349.5
Long-term debt		14.0	13.4
Convertible Series Preferred Shares, debt portion		-	57.2
Shareholders' equity		261.5	174.9
per share			
Earnings per Class A Subordinate Voting Share or Class B Share			
Basic		$ 1.14	$ 1.31
Fully diluted		$ 1.05	$ 1.13
Average number of Class A Subordinate Voting Shares and Class B Shares outstanding *(millions)*			
Basic		23.4	18.8
Fully diluted		30.0	26.6

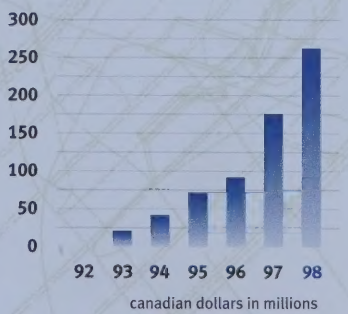
Net income rose 12% to a new high.



Operating cash flow exceeded $50 million for the first time.



Shareholders' equity increased to over $250 million.

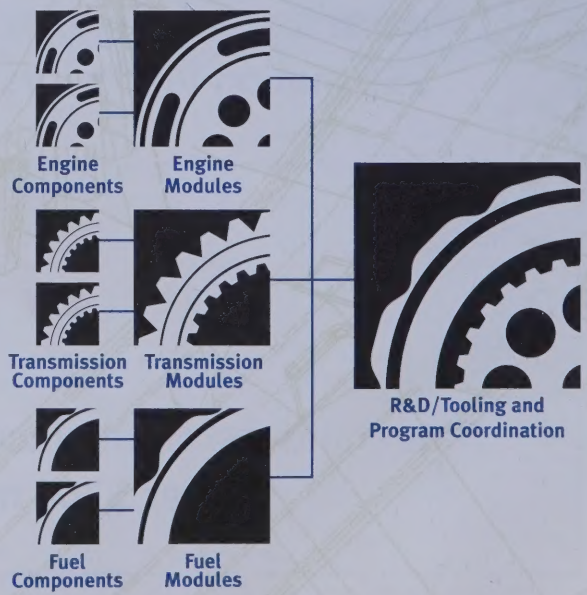


message to shareholders

Tesma International Inc. enjoyed another year of significant success and accomplishment during fiscal 1998. We reported record sales of $645.9 million, including tooling sales of $48.5 million - a strong indicator of continuing customer confidence and upcoming new business activity. Despite the negative effects of the two month strike at General Motors during the summer of 1998 and the "one-time" provision against income taken by the Company in respect of the settlement of a competitor's patent infringement lawsuit, Tesma reported net income of $29.7 million, an increase of 12% over the prior year.

During 1998, Tesma announced two strategic acquisitions - Hughes Manufacturing, a supplier of formed and finished metallic tubes for gas tank applications, which was purchased in the second quarter to complement, in North America, the fuel filler modules business developed by our Blau group of companies in Europe; and Triam Automotive's Sterling Heights facility, a highly regarded transmission components manufacturer located in Michigan, which was acquired at the beginning of fiscal 1999 to expand our customer base and range of product offerings in this important market segment. Independent of these acquisitions, Tesma was awarded substantial amounts of new business in fiscal 1998 - exceeding, on an incremental basis, $140 million per annum when full production volumes are attained - supporting the Company's strong growth rate into the new millennium.

As a foundation for our longer-term future growth, Tesma has established a globally coordinated research and development strategy which focuses on continued innovation and the development of new products in our core engine, transmission, fueling and cooling systems areas. The Company's advanced research and development groups, located in Toronto, Canada and Weiz, Austria, will concentrate their efforts on the development of highly-engineered, high value-added modules and systems, including engine balance shaft assemblies, one-way spiroidal clutch and coupling assemblies for transmissions and four-wheel/all-wheel drive systems, infinitely variable transmission systems for high torque vehicle applications, advanced fuel filler modules and capless or "comfort" refueling systems. In keeping with Tesma's commitment to continued technological advancement, during fiscal 1998 the Company spent $14.1 million on research and development activities, an increase of 8% over the prior year.



Capitalizing on the continuing automotive industry trends of globalization, supplier consolidation and increased outsourcing of engine and transmission products by the original equipment manufacturers (OEMs), Tesma has advanced our market position as a "full service" supplier

of powertrain-based modular products a[illegible] the area of eng[illegible]ems, the Company is poised to becom[illegible] to core, one of th[illegible]pliers of engine pumps to the North Ameri[illegible] product str[illegible] covers, including cast and [illegible] and water p[illegible]te front end accessory drive systems, has re[illegible] OEMs and resulted in the receipt of a development contract for a North Ameri[illegible] to be introduced in the near future. This modular products approach, which combines our [illegible]opment and diversified manufacturing capabilities, is also being aggressively pursued by Tesma in the [illegible] and fueling systems areas. To enhance these efforts and reduce "time-to-market" for the full [illegible] products, Tesma [illegible] being re-aligned on the basis of a distinct "Engine Systems", "Transmission Systems" [illegible] following pages of this Annual Report expand on our strengths and capabilities in these [illegible]

Looking forward, Tesma's objecti[illegible] vements in our underperforming divisions. Through our [illegible] and-run" manufacturing approach, an increasing focus on automation and production efficiency improvements and the ongoing training and skills enhancement of our employees, management is confident that these goals will be successfully achieved in the near-term. In addition, to ensure that the spirit of "fair enterprise" is practiced at all Tesma facilities, including our new acquisitions and existing operations in Europe, the Company is embarking on an intensive corporate culture awareness training program for all our employees.

As a result of our demonstrated leadership in product development and manufacturing capabilities, our international sales, engineering and project management resources, and our continuing commitment to Innovation, Engineering and Performance, Tesma remains well-positioned to take advantage of the [illegible] opportunities in the Engine, Transmission and Fueling Systems product areas across the global automotive industry.

The business success enjoyed by Tesma is directly attributable to the [illegible] all levels. On behalf of management and our board of directors, we thank all Tesma empl[illegible] contributions throughout fiscal 1998. The challenge for fiscal 1999 and beyond will be to continue [illegible] performance and to maintain a global "best in class" level of excellence in all that we do.

Manfred Gingl
President and
Chief Executive Officer

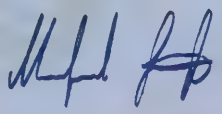
message to shareholders

of powertrain-based modular products and assemblies. In the area of engine oil and water pump systems, the Company is poised to become, based on business awarded to date, one of the largest independent suppliers of engine pumps to the North American automotive industry. Moreover, our product strategy for modular engine covers, including cast and machined aluminum cover plates, integrated oil and water pumps and complete front end accessory drive systems, has received positive acceptance from various OEMs and resulted in the receipt of a development contract for a North American light truck engine application to be introduced in the near future. This modular products approach, which combines our existing engineering, development and diversified manufacturing capabilities, is also being aggressively pursued by Tesma in the transmission and fueling systems areas. To enhance these efforts and reduce "time-to-market" for the introduction of new products, Tesma's manufacturing organization is being re-aligned on the basis of a distinct "Engine Systems", "Transmission Systems" and "Fueling Systems" focus. The following pages of this Annual Report expand on our strengths and capabilities in these three Systems areas.

Looking forward, Tesma's objective is to continue to achieve significant operational and financial improvements in our underperforming divisions. Through our overall "clean and lean" manufacturing approach, an increasing focus on automation and production efficiency improvements, and the ongoing training and skills enhancement of our employees, management is confident that these goals will be successfully achieved in the near-term. In addition, to ensure that the spirit of "fair enterprise" is practiced at all Tesma facilities, including our new acquisitions and existing operations in Europe, the Company is embarking on an intensive corporate culture awareness training program for all our employees.

As a result of our demonstrated leadership in product development and manufacturing capabilities, our international sales, engineering and project management resources, and our continuing commitment to Innovation, Engineering and Performance, Tesma remains well-positioned to take advantage of the present and future opportunities in the Engine, Transmission and Fueling Systems product areas across the global automotive industry.

The business success enjoyed by Tesma is directly attributable to the efforts of our employees at all levels. On behalf of management and our board of directors, we thank all Tesma employees for their contributions throughout fiscal 1998. The challenge for fiscal 1999 and beyond will be to continue this high level of performance and to maintain a global "best in class" level of excellence in all that we do.



Manfred Gingl
President and
Chief Executive Officer

Anthony E. Dobranowski
Executive Vice President and
Chief Financial Officer

tesma at a glance

engine

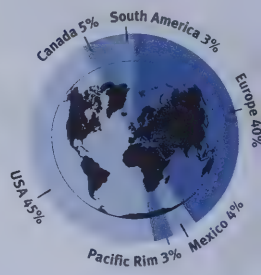
Lead by our Litens Automotive group, Tesma's engine systems products represent the "core" business of the Company and are based on our "full service", world-leading front-end accessory drive systems and products. Tesma will continue to expand our engine systems capabilities through on-going engineering and technological development, including the expanded use of injection moulded and aluminum die-cast and machined assemblies for complex engine applications.

major customers

GM, Ford, VW, FIAT, Chrysler, Mercedes, TOYOTA, HONDA, ROVER, OPEL

financial data

Sales by Region



transmission

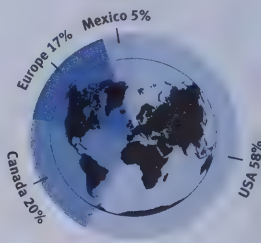
Applying innovative manufacturing processes and metal forming technologies, Tesma's transmission systems business is based on the supply of unique components and assemblies that offer significant performance, weight, cost and packaging advantages. With the recent acquisition of the Triam Automotive Sterling Heights facility, Tesma has further expanded our customer base and product offerings in the important transmission systems market segment.

major customers

GM, Saturn, Chrysler, Ford, Mercedes, mazda, Allison transmission

financial data

Sales by Region



fuel

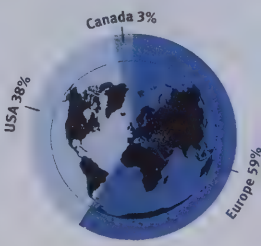
Tesma's fuel systems business, represented by the Blau group of companies, is increasingly involved in the development and supply of innovative "cap-to-tank" refueling products, including fuel filler modules. Blau's products address performance specifications, consumer ease-of-use features and assist our OEM customers in meeting or exceeding increasingly stringent environmental and legislative requirements for vehicle refueling.

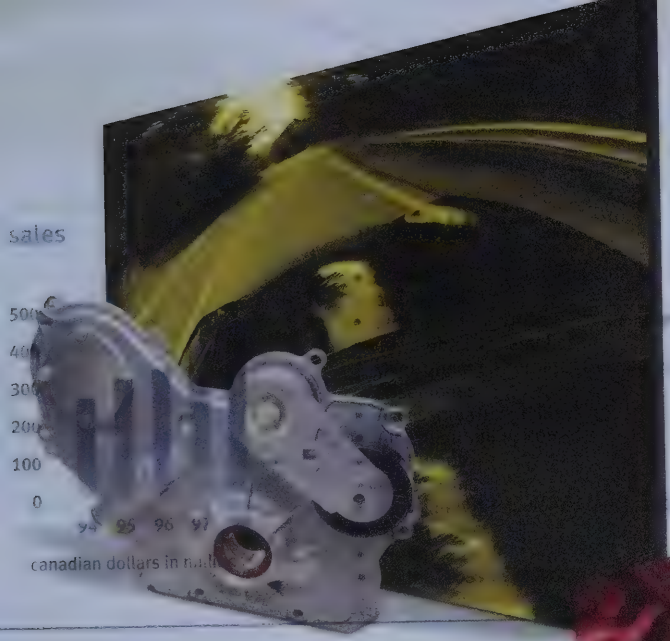
major customers

GM, Ford, FIAT, VW, Audi, BMW, OPEL, Mercedes, VOLVO, IVECO

financial data

Sales by Region





sales

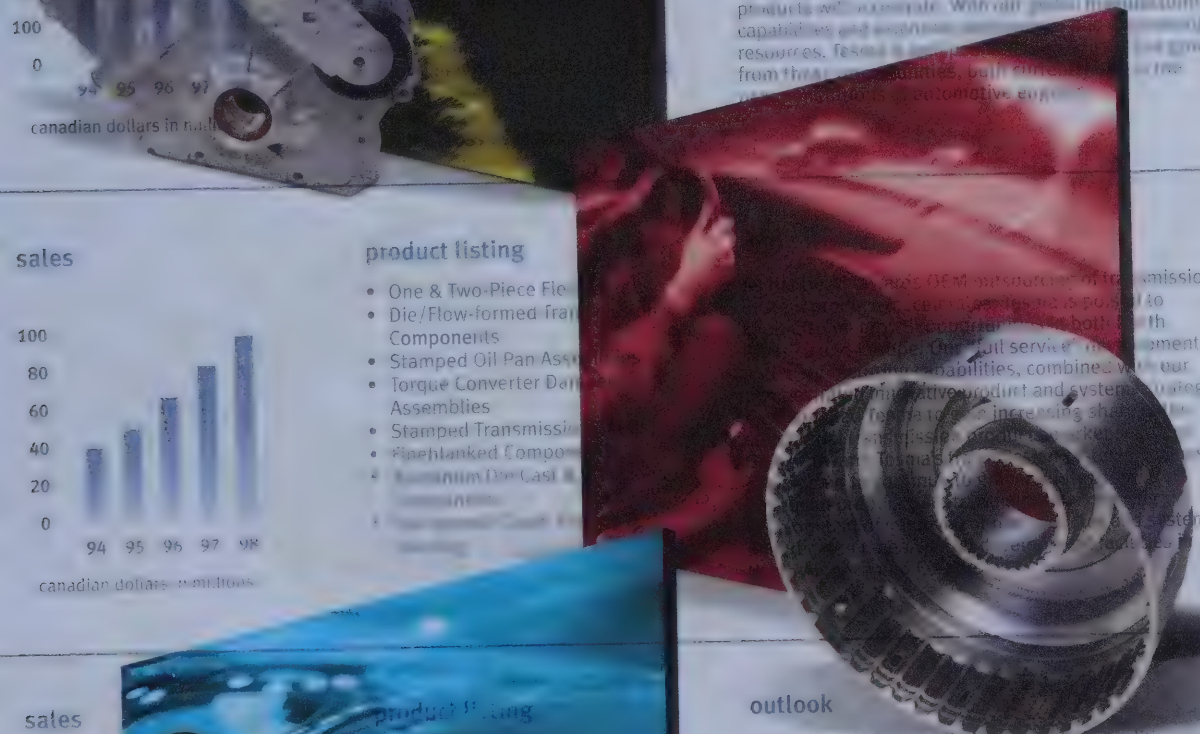
500
400
300
200
100
0

94 95 96 97

canadian dollars in mill

outlook

Tesma sees tremendous growth opportunities for ... engine systems business through the development ... and supply of modular front-end assemblies, new product introductions utilizing existing technologies and continued expansion in emerging markets. As the OEMs concerns with emissions, fuel economy, weight, performance and costs continue, the trend toward "better," "smaller" and "lighter" engine system products will accelerate. With our global manufacturing capabilities and ... resources, Tesma ... from the ... automotive engi...



sales

100
80
60
40
20
0

94 95 96 97 98

canadian dollars in millions

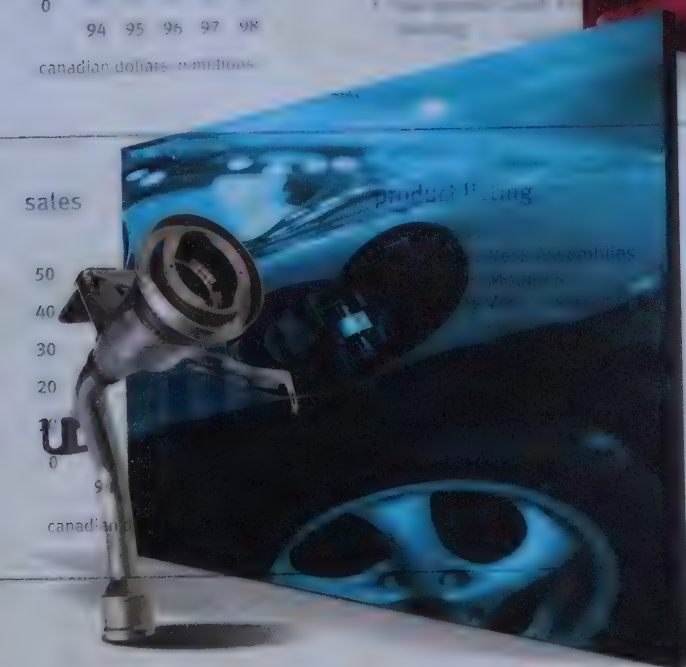
product listing

- One & Two-Piece Fle...
- Die/Flow-formed Fra... Components
- Stamped Oil Pan Ass...
- Torque Converter Da... Assemblies
- Stamped Transmissi...
- Finehlanked Compo...
- Aluminum Die Cast ...

...mission ...to ...th ...oment ...ology. ...ss ...stems

outlook

In addition to Tesma's existing ... "cap" products, the develop... of ... board refueling vapour ... integrated fuel filler ... the North American ... and its formed and ... business, helps ... refueling prod... automotive ... develop... refueling ... the opportunity ... Tesma with ... sales in the fuel ... systems ...



sales

50
40
30
20
10
0

94

canadian ...

product listing

...Assemblies

tesma at a

engine

Lead by our Litens Automotive [illegible] engine systems [illegible] represent the "core" [illegible] and are based [illegible] service", world-leading [illegible] drive systems and [illegible] Tesma will continue [illegible] systems capabil[illegible] going engineering [illegible] development, including [illegible] use of [illegible] die-cast and machine [illegible] for [illegible]

transmi[illegible]

Applying [illegible] Tesma's [illegible] compone[illegible] and assemb[illegible] and pa[illegible] ging advantages. With the [illegible] Sterl[illegible] its fruitful [illegible] Tesma has [illegible] th[illegible] pro[illegible]

major customers

mazda

Allison transmission

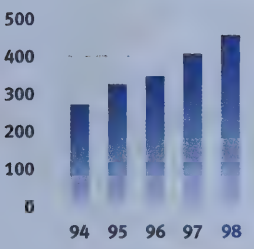
financial data

Sales by Region

fuel

To[illegible]'s [illegible] represented by the Blau group [illegible] companies, is in[illegible] development and su[illegible] of innovative "cap-to-tank" [illegible] including fuel fille[illegible] Blau's products address per[illegible] tions, consumer [illegible] features and assist our OEM [illegible] meeting or exceeding [illegible] stringent environmental and le[illegible] requirements for vehic[illegible]

sales



canadian dollars in millions

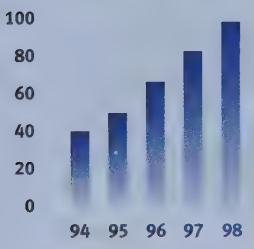
product listing

- Accessory Drive Belt Tensioners and Systems
- Engine Timing Drive Belt Tensioners
- Drive Shaft Assemblies
- Overrunning Alternator Decoupler Assemblies
- Accessory Drive Pulleys
- Air Conditioning Rotors
- Oil Pumps
- Water Pumps
- Aluminum Die Cast and Machined Assemblies
- Thermostat Housings
- Water Cross-over Assemblies

outlook

Tesma sees tremendous growth opportunities for our engine systems business through the development and supply of modular front-end assemblies, new product introductions utilizing existing technologies and continued expansion in emerging markets. As the OEMs concerns with emissions, fuel economy, weight, performance and costs continue, the trend toward "better", "smaller" and "lighter" engine system products will accelerate. With our global manufacturing capabilities and extensive development and engineering resources, Tesma is well positioned to benefit and grow from these opportunities, both currently and in the next generations of automotive engines.

sales



canadian dollars in millions

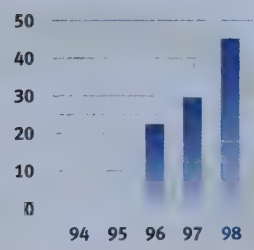
product listing

- One & Two-Piece Flexplates
- Die/Flow-formed Transmission Components
- Stamped Oil Pan Assemblies
- Torque Converter Damper Assemblies
- Stamped Transmission Shells
- Fineblanked Components
- Aluminum Die Cast & Machined Components
- Die-formed Clutch Pistons & Housing

outlook

As the trend towards OEM outsourcing of transmission system products accelerates, Tesma is poised to capitalize on growth opportunities in both North America and Europe. Our "full service" development and manufacturing capabilities, combined with our demonstrated innovative product and systems strategy, have enabled Tesma to gain increasing share in the substantial transmission products market segment. Going forward, Tesma's transmission systems business is expected to continue to grow rapidly through increased product penetration and the ongoing development of improved or new modules and systems at dedicated research and development facilities in North America and Europe.

sales



canadian dollars in millions

product listing

- Fuel Caps
- Fuel Filler Neck Assemblies
- Fuel Filler Modules
- Refueling Vapour Recovery Valves/Systems
- Oil Caps
- Coolant Reservoir and Radiator Caps
- Fuel Filler and Vent Tubes

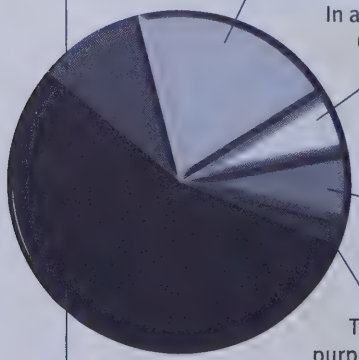
outlook

In addition to Blau's existing strength in traditional "cap" products, the development of proprietary on-board refueling vapour recovery (ORVR) systems and integrated fuel filler modules in Europe, together with the North American acquisition of Hughes Manufacturing and its formed and finished metallic gas tank tube business, helps maintain Tesma's position as a leading refueling products supplier in the world's two largest automotive markets. Extensive new product developments in the areas of capless or "comfort" refueling systems will continue to provide Tesma with the opportunity to further expand sales in the fuel systems product market.

corporate constitution

Tesma's Corporate Constitution defines the rights of employees, management and investors to participate in Tesma's profits and growth, encourages technological development and promotes social objectives. Tesma's unique Employee Charter commits the Company to an operating philosophy based on fairness, a concern for people and their workplace environment. These core principles, in conjunction with a decentralized entrepreneurial management philosophy, create an employee atmosphere where dedication and innovation are rewarded. The challenge for Tesma's management is to expand on these principles by developing, motivating and recruiting a superior team of well trained and experienced employees to build and support future growth. Accordingly, Tesma has made training and human resource development at all levels a key priority, with a commitment to continuing "investments" in the people who design, develop, engineer and manufacture our products for our customers around the world.

Employee Equity and Profit Participation
10% of Tesma's profit before tax is allocated each year to employees, recognizing length of service, as cash distributions and as contributions to the Tesma deferred profit sharing plan (which invests primarily in Tesma Class A shares).



Shareholder Profit Participation
In accordance with a prescribed formula, Tesma distributes on average, 20% of the Company's annual net profit to its shareholders.

Management Profit Participation
To obtain long-term contractual commitment from senior management, the Company provides a compensation arrangement which allows for the distribution to corporate management of up to 6% of Tesma's annual profit before tax.

Research & Development
Each year, Tesma allocates 7% of its profit before tax for research and development to ensure the long-term viability of the Company.

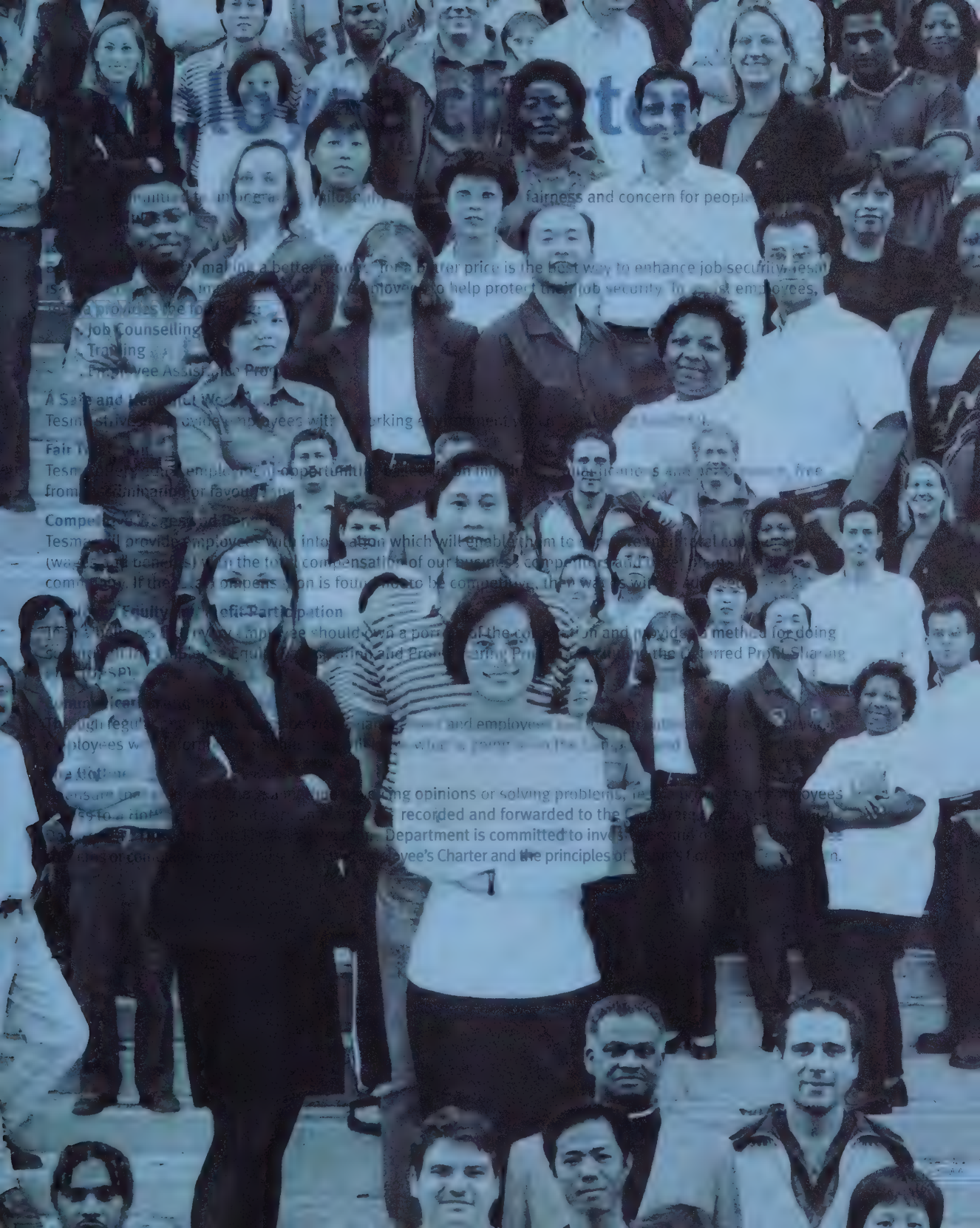
Social Responsibility
Tesma allocates up to 2% of its profit before tax for charitable, educational and political purposes to support the basic fabric of society.

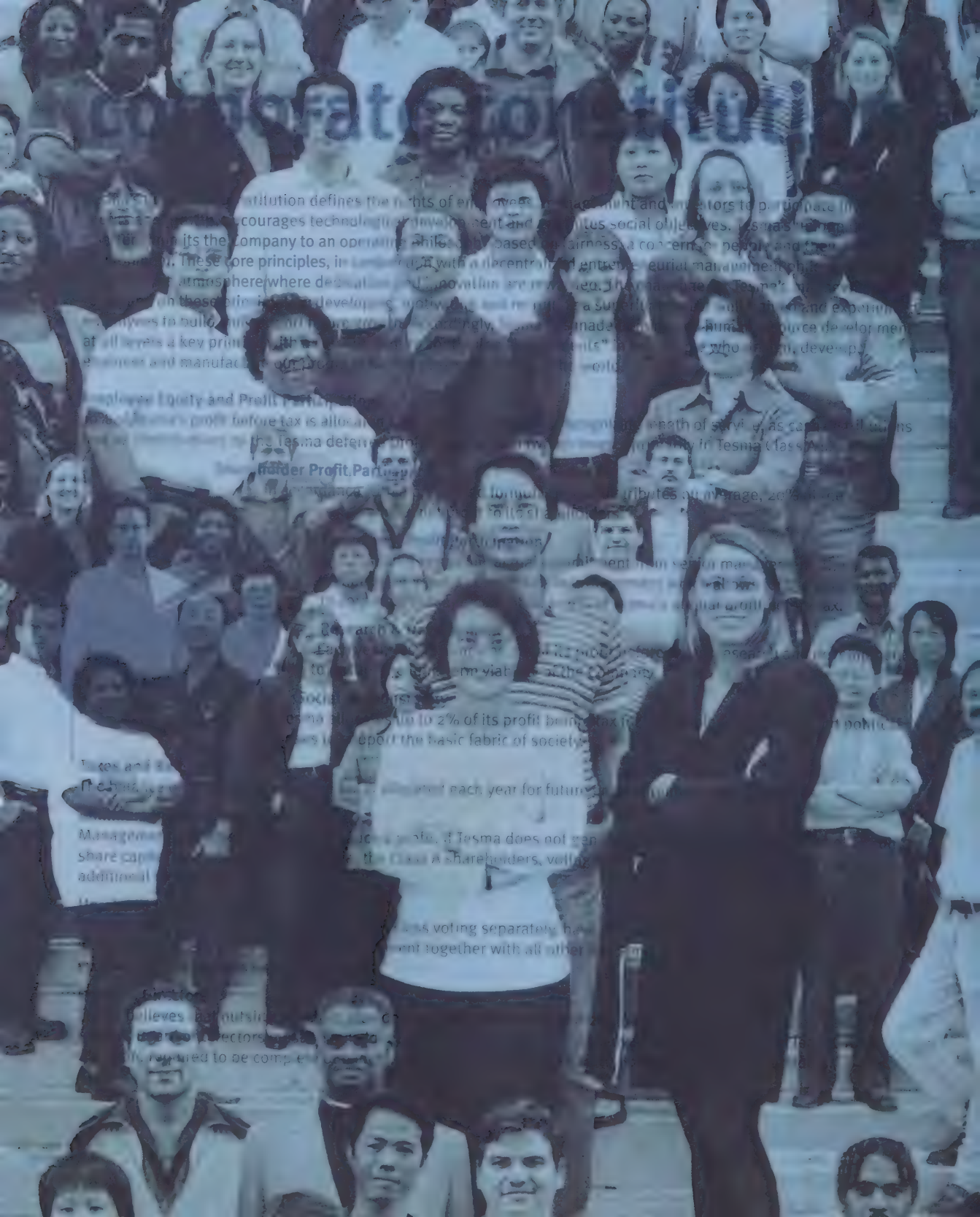
Taxes and Reinvestment
The balance of Tesma's profit before tax is allocated each year for future growth, reinvestment and taxes.

Minimum Profit Performance
Management has an obligation to produce a profit. If Tesma does not generate a minimum after-tax return of 4% on share capital for two consecutive years, the Class A shareholders, voting as a class, will have the right to elect additional directors.

Unrelated Investments
Class A and Class B shareholders, with each class voting separately, have the right to approve any investment in an unrelated business in the event such investment together with all other investments in unrelated businesses exceeds 20% of Tesma's equity.

Board of Directors
Tesma believes that outside directors provide independent counsel and discipline. A majority of the members of Tesma's Board of Directors must be individuals who are not officers or employees of the Company, at least two of which are required to be complete outsiders. Currently, five of Tesma's eight Board members are outsiders.


fairness and concern for people
Job Counselling
Training
Employee Assistance Programme
Fair
Competitive
Profit Participation
opinions or solving problems,
recorded and forwarded to the
Department is committed to inv
Employee's Charter and the principles of



employee charter

Tesma is committed to an operating philosophy which is based on fairness and concern for people. It includes these principles:

Job Security
Being competitive by making a better product for a better price is the best way to enhance job security. Tesma is committed to working together with its employees to help protect their job security. To assist employees, Tesma provides the following:

- Job Counselling
- Training
- Employee Assistance Programs

A Safe and Healthful Workplace
Tesma strives to provide employees with a working environment which is safe and healthful.

Fair Treatment
Tesma offers equal employment opportunities based on an individual's qualifications and performance, free from discrimination or favouritism.

Competitive Wages and Benefits
Tesma will provide employees with information which will enable them to compare their total compensation (wages and benefits) with the total compensation of our business competitors and other plants in our community. If the total compensation is found not to be competitive, then wages will be adjusted.

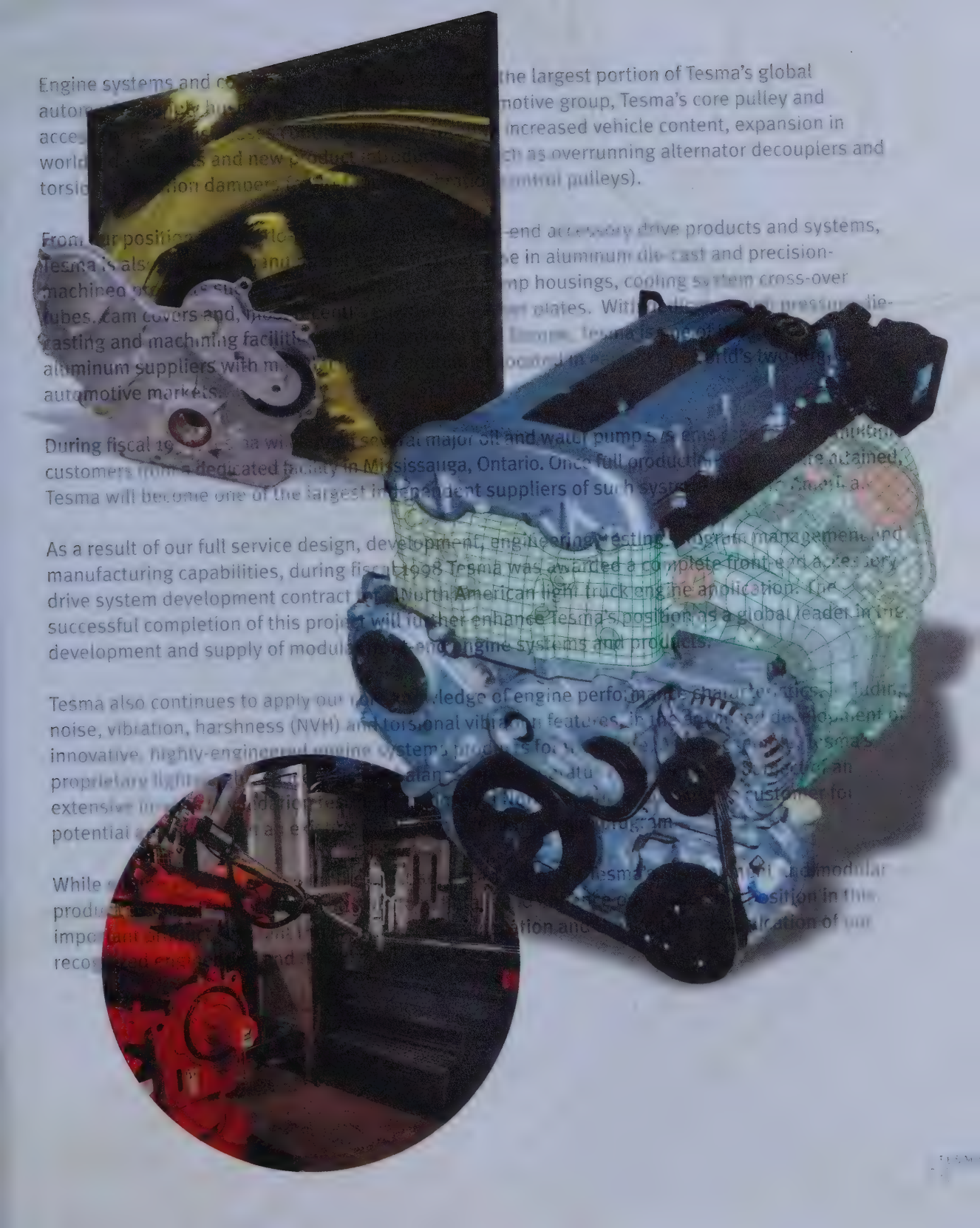
Employee Equity and Profit Participation
Tesma believes that every employee should own a portion of the corporation and provides a method for doing so through the Employee Equity Participation and Profit Sharing Program, including the Deferred Profit Sharing Plan (DPSP).

Communication and Information
Through regular monthly meetings between management and employees and through publications, Tesma provides employees with information so that they will know what is going on in the Company and within the industry.

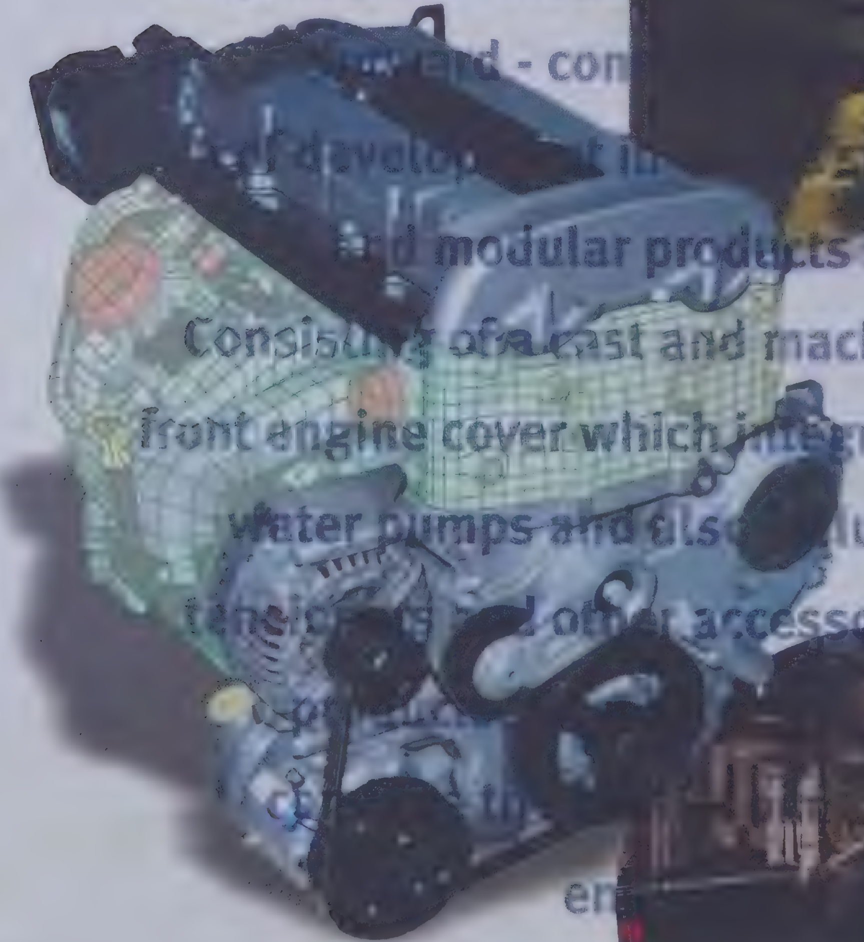
The Hotline
To ensure that employees have a method of voicing opinions or solving problems, Tesma provides all employees access to a Hotline. Comments or complaints are recorded and forwarded to the Corporate Employee Relations Department. The Corporate Employee Relations Department is committed to investigate and resolve all employee concerns or complaints within the spirit of this Employee's Charter and the principles of Tesma's Corporate Constitution.

engine

Engine Cover Modules - from the "front of the block" forward - constitute the most advanced area of development in Tesma's engine systems and modular products supply strategy. Consisting of a cast and machined aluminum front engine cover which integrates the oil and water pumps and also includes all pulleys, tensioners and other accessory drive system products, Tesma's engine cover modules combine the best of our existing and new engine systems capabilities.



eng … e



Engine Cover Modu… of the
…rd - con… most advanced
…developm… engine systems
…d modular products supply strategy.
Consisting of a cast and machined aluminum
front engine cover which integrates the oil and
water pumps and also includes all pulleys,
tensioners and other accessory drive system
… modules
… new
en… es.

Engine systems and components currently represent the largest portion of Tesma's global automotive supply business. Lead by our Litens Automotive group, Tesma's core pulley and accessory drive businesses continue to grow through increased vehicle content, expansion in worldwide markets and new product introductions such as overrunning alternator decouplers and torsional vibration dampers (multi-function vibration control pulleys).

From our position as a world-leading supplier of front-end accessory drive products and systems, Tesma is also rapidly expanding our technological base in aluminum die-cast and precision-machined products such as oil pans, water and oil pump housings, cooling system cross-over tubes, cam covers and, most recently, engine front cover plates. With dedicated high pressure die-casting and machining facilities in North America and Europe, Tesma is one of the few cast aluminum suppliers with manufacturing capabilities located in each of the world's two largest automotive markets.

During fiscal 1999, Tesma will launch several major oil and water pump systems programs for multiple customers from a dedicated facility in Mississauga, Ontario. Once full production volumes are attained, Tesma will become one of the largest independent suppliers of such systems in North America.

As a result of our full service design, development, engineering, testing, program management and manufacturing capabilities, during fiscal 1998 Tesma was awarded a complete front-end accessory drive system development contract for a North American light truck engine application. The successful completion of this project will further enhance Tesma's position as a global leader in the development and supply of modular front-end engine systems and products.

Tesma also continues to apply our core knowledge of engine performance characteristics, including noise, vibration, harshness (NVH) and torsional vibration features, in the advanced development of innovative, highly-engineered engine systems products for the future. As one example, Tesma's proprietary lightweight, space-efficient balance shaft apparatus is currently the subject of an extensive in-vehicle validation testing program by a North American automotive customer for potential application on an existing small displacement engine program.

While engine systems represent the most advanced aspect of Tesma's development and modular product supply strategy, Tesma intends to maintain and enhance our leadership position in this important product segment through continued innovation and the continued application of our recognized engineering and manufacturing skills.

trans

The current automotive industry trend to outsource transmission system products continues to represent a significant growth opportunity for Tesma. With our unique or proprietary metal processing capabilities - die-forming, flow-forming, stamping and spinning, synchronous roll-forming, fine-blanking, die-casting and precision machining - Tesma is well positioned to take advantage of these outsourcing opportunities both in North America and Europe.

Tesma continues to enjoy increasing success in [illegible] market for transmission components and systems. In fiscal 1998, our [illegible] systems business continued to expand, growing by 18% over the prior year. In particular, [illegible] to capitalize on our proprietary one-piece flexplate (starter gear) technology, [illegible] dependent producer of flexplates (both one- and two-piece designs) [illegible]. Finally, Tesma was also awarded our first production contract for a flo[illegible]ch housing. Our unique application of flow-forming manufacturing tec[illegible] automated machining and broaching capabilities, has resulted in th[illegible] of the automotive industry's most advanced flow-formed clutch [illegible].

Tesma continues to allocate significant [illegible] of our licensed technolo[illegible] During fiscal 1998, T[illegible]nced development programs [illegible] the performan[illegible] wheel and all-wheel drive transfer [illegible] differential[illegible]es. Tesma is currently exploring, in conjunction [illegible] the pote[illegible] apply this clutch and coupling technology in the developme[illegible] Trans[illegible] system which would be capable of handling the higher torque [illegible] large pas[illegible] cars and light trucks.

[illegible] further expand our die-formed transmission components business. Tesma recently [illegible] from Triam Automotive Sterling Heights facility in Michigan. In addition to a [illegible]ong reputation with North American automotive [illegible] the Sterling Heights facility immediately [illegible]engthens and broadens Tesma's product portfolio by adding various [illegible] different product [illegible]apabilities, including stamped transmission oil pans and torque converter damper plate assemblies - the latter, utilizing a proprietary one-piece design and assembly technology, has received considerable customer interest and orders for commercial production commencing in the 2000 model year.

Transmission systems are Tesma's fastest growing area of business development. Tesma believes that our innovative product development strategy, combined with our advanced and varied manufacturing capabilities, uniquely positions Tesma as a [illegible] supply source for [illegible] components and systems which have been traditionally manufactured "in-[illegible] automotive OEMs.

tesma

The [illegible] otive industry trend to [illegible] ssion system products [illegible] to represent a signi[illegible] growth opportunity for Tesma. With our unique or proprietary metal processing capabilities – [illegible] forming, flow forming, stamping and spinning, synchronous roll-forming, fine-blanking, die-casting and precision machining – Tesma is well positioned to take advantage of these outsourcing opportunities in North America and Europe.

Tesma continues to enjoy increasing success in the multi-billion dollar market for transmission components and systems. In fiscal 1998, our transmission systems business continued to expand, growing by 18% over the prior year. In particular, Tesma continued to capitalize on our proprietary one-piece flexplate (starter gear) technology, becoming the largest independent producer of flexplates (both one- and two-piece designs) in North America. Additionally, Tesma was also awarded our first production contract for a flow-formed transmission clutch housing. Our unique application of flow-forming manufacturing technology, in combination with automated machining and broaching capabilities, has resulted in the development by Tesma of one of the automotive industry's most advanced flow-formed clutch housings for transmission applications.

Tesma continues to allocate significant research and development resources to the commercialization of our licensed technology for coplanar gears and programmable one-way clutches and couplings. During fiscal 1998, Tesma commenced development programs utilizing these technologies to improve the performance of four-wheel and all-wheel drive transfer cases, automatic transmissions and differential assemblies. Tesma is currently exploring, in conjunction with a North American OEM, the potential to apply this clutch and coupling technology in the development of an Infinitely Variable Transmission system which would be capable of handling the higher torque loads required in large passenger cars and light trucks.

To complement and further expand our die-formed transmission components business, Tesma recently completed the acquisition of the Triam Automotive Sterling Heights facility in Michigan. In addition to a strong reputation with North American automotive customers, the Sterling Heights facility immediately strengthens and broadens Tesma's product portfolio by adding various new or different product capabilities, including stamped transmission oil pans and torque converter damper plate assemblies - the latter, utilizing a proprietary one-piece design and assembly technology, has received considerable customer interest and orders for commercial production commencing in the 2000 model year.

Transmission systems are Tesma's fastest growing area of business development. Tesma believes that our innovative product development strategy, combined with our advanced and varied manufacturing capabilities, uniquely positions Tesma as a preferred supply source for transmission components and systems which have been traditionally manufactured "in-house" by the automotive OEMs.

fuel

Tesma's "cap-to-tank" integrated fuel filler modules strategy is based on the application of highly evolved valving and manufacturing technologies in the further development of unique, environmentally responsible vehicle refueling systems. Using metal processing and plastic injection moulding capabilities, Tesma, through our Blau group of companies, has established a reputation for innovative fuel systems product development and supply in both Europe and North America.

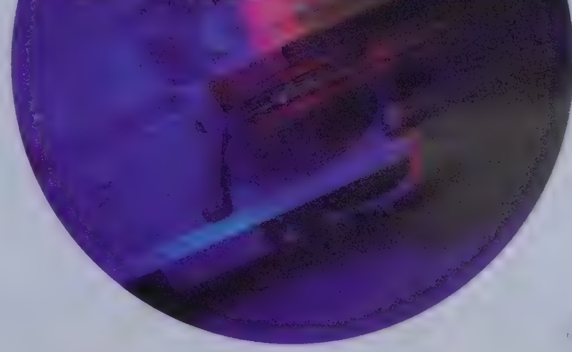
Tesma's fueling systems capabilities are represented by the Blau group of companies, whose operational and financial performance continued to improve [illegible] during fiscal 1998. In Europe, Blau continues to be a leading supplier of automotive caps - fuel, radiator, coolant reservoir, oil - and other related fueling components. [illegible] fiscal [illegible] Blau continued to increase European market share in traditional fuel cap products [illegible] while [illegible] growth segment, remain an important business base for expansion into [illegible] North America, a competitor's patent infringement suit was settled on terms which permit [illegible] to produce fuel caps for an OEM customer through the end of the [illegible] model year.

Blau's [illegible] of the fuel cap, filler inlet and filler pipe of [illegible] refueling vapour recovery" (ORVR) system [illegible] fiscal 1998, with the commencement of low volume [illegible] Benz on several vehicle lines. These supply arrangements include ORVR compatible fuel [illegible] modules for vehicles exported to North America and standard non-ORVR modules for European vehicles. In addition, Blau will also supply an ORVR compatible fuel filler head [illegible] new TT coupe that is being introduced during the 1999 model year.

Tesma's fiscal 1998 acquisition of [illegible] Manufacturing, a Michigan-based supplier of formed and finished metallic tubes for gas tank applications, complements Blau Europe's filler tube capabilities, and is intended to [illegible] base for the introduction of Tesma's fuel filler modules strategy in North America.

Blau's European research and development centre continues to progress [illegible] of capless or "comfort" refueling systems, which [illegible] convenience and ease of use [illegible] eliminated and its [illegible] re-engineered [illegible] the remaining "on-board" filler [illegible] pipe. "Comfort" refueling development projects are currently on-going with several European OEMs, with the expectation that commercial production [illegible] will begin in the near future. Additionally, Blau's European R&D centre is working with an OEM customer on a [illegible] filler head assembly that uniquely incorporates Blau's [illegible] ORVR valving [illegible] fuel filler head for a high volume vehicle platform.

As described above, Tesma's modular [illegible] systems approach to the development of advanced [illegible] systems products offers significant opportunities for the Blau companies to expand beyond [illegible] current product offerings.



fuel

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Tesma's fueling systems capabilities are represented by the Blau group of companies, whose operational and financial performance continued to improve significantly during fiscal 1998. In Europe, Blau continues to be a leading supplier of automotive caps - fuel, radiator, coolant reservoir, oil - and other related fueling components. During fiscal 1998, Blau continued to increase European market share in traditional fuel cap products, which, while not a high growth segment, remain an important business base for expansion into advanced fuel filler modules. In North America, a competitor's patent infringement suit was settled on terms which permit Blau to continue to produce fuel caps for an OEM customer through the end of the 2001 model year.

Blau's fuel filler modules - integrated refueling units consisting of the fuel cap, filler inlet and filler pipe or tube, plus, in some applications, proprietary "on-board refueling vapour recovery" (ORVR) system technology - continued to gain acceptance in fiscal 1998, with the commencement of low volume production for Daimler Benz on several vehicle lines. These supply arrangements include ORVR compatible fuel filler modules for vehicles exported to North America, and standard non-ORVR modules for European vehicles. In addition, Blau will also supply an ORVR compatible fuel filler head for Audi's new TT coupe that is being introduced during the 1999 model year.

Tesma's fiscal 1998 acquisition of Hughes Manufacturing, a Michigan-based supplier of formed and finished metallic tubes for gas tank applications, complements Blau Europe's filler tube capabilities, and is intended to constitute the base for the introduction of Tesma's fuel filler modules strategy in North America.

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As described above, Tesma's modular and systems approach to the development of advanced fuel systems products offers significant opportunities for the Blau companies to expand beyond their current product offerings.

management's discussion & analysis

Management's discussion and analysis of operations and financial position should be read in conjunction with the accompanying consolidated financial statements.

STRATEGY

During 1998, Tesma continued to refine and implement its strategic plan by adapting it to emerging and existing trends in the automotive supply industry and building on its position as a leading supplier across its engine, transmission and fueling product lines. These trends include: the consolidation of the supply base; the globalization of the remaining supply base; the increased outsourcing of more complex products and modules in the powertrain area; and, the early involvement of suppliers in the design and development of new automotive components and systems. Tesma's goal is to improve on our reputation as a preferred full service powertrain supplier by identifying and taking full advantage of the trends thus ensuring continued growth in sales. So while the strategy is modified to account for emerging industry trends the key elements of our strategy continue to be: innovation through continued emphasis on research and development; focus on complex, high value added, engineered and proprietary products; capitalizing on strong customer relationships and establishing new ones; pursuing international growth opportunities with our customers through strategic acquisitions, joint ventures and licensing arrangements; focusing on efficiency improvements and product diversification; and, ensuring our workforce is motivated and continually upgrading their skills.

The Company made significant progress towards its goals over the past two years. During 1998 the Company's Engine Systems Group expanded its product offerings with the opening of ICD, a facility established after Tesma was awarded several contracts to manufacture waterpumps commencing with the 1999 model year. Based on currently forecasted vehicle volumes the value of these contracts is expected to exceed $150 million annually at peak volumes. In addition, STT Technologies Inc. ["STT"], continued to pursue additional opportunities in oil pumps using their proprietary technology and continued to ramp up in anticipation of the start up of their first contract during the 1999 model year. In the Transmissions Systems Group the Company opened a new facility in Aurora, Ontario dedicated to the production of flexplates. Using the Company's proprietary technology this facility has been able to secure over $60 million in business and at peak volumes will produce more than 5.4 million flexplates annually for several different OEMs. The Fueling Systems Group continued to develop new technology during the year and its major growth during the year was through acquisition.

On February 17, 1998 the Fueling Systems Group completed the $7.7 million acquisition of Hughes Manufacturing, Inc., ("Hughes") a Michigan based supplier of formed vent and filler tubes for the North American automotive industry. The sales of Hughes have grown at an annualized rate of over 40% since 1995 and today are approximately $12 million. Not only did this acquisition expand our product offerings and technical capabilities in the area of fueling systems but it also provided Tesma with its first manufacturing presence in the United States. Also during the year, we continued to fine tune our European operations by completing the divestiture of Eralmetall's non-core anodizing facility and we decided to acquire the remaining 50% interest in Aluminium Technique Moselle S.a.r.l. ("ATM") a small French gravity caster. This acquisition provides Tesma full control of this operation which will facilitate an easier integration of their gravity casting operations with those of Eralmetall.

In 1997, Tesma acquired the aforementioned Eralmetall, a gravity and high pressure die caster of aluminum products, with its principal manufacturing facility in Germany and the ATM joint venture in France, for $2.5 million. Substantially all of Eralmetall's $34 million in sales are made within Europe and its customers include Mercedes, Porsche and other European OEMs. This acquisition complemented Tesma's existing Canadian aluminum die casting and machining capabilities in a second major automotive market.

Tesma operates nineteen manufacturing facilities in two major geographic markets: North America and Europe. From these facilities Tesma supplies components, assemblies, modules, systems and tooling to OEMs on six different continents. Each of these facilities operates as an autonomous unit following the Company's culture of functional and operational decentralization. To align the facilities on a product and processing basis they are organized into three core areas of the vehicle to which their products and ideas are incorporated: Engine Systems, Transmission Systems and Fueling Systems. This alignment allows facilities with similar objectives to share ideas and expertise and to pursue larger projects which require co-operation and broad ranges of experience and expertise.

RESULTS OF OPERATIONS

Sales

	1998	1997	Change
Production sales:			
North America	$ 427.6	$ 390.9	+ 9%
Europe	169.8	128.3	+ 32%
Tooling sales	48.5	32.3	+ 50%
Total sales	$ 645.9	$ 551.5	+ 17%

Tesma's consolidated sales increased 17% to a record $645.9 million in 1998, compared to $551.5 million in 1997. North American production sales increased 9% to $427.6 million from $390.9 million in 1997 despite the slight decline in North American production volumes by 15,000 units to 14.29 million in 1998. This decline was entirely attributable to the two month General Motors strike which occurred during the Company's fourth quarter and caused volumes to drop more than 10% from prior year's levels during this period. Tesma's growth in North America resulted from the acquisition of Hughes, increased exports to Europe and South America and increased penetration of existing products and new product launches which increased our North American vehicle content to $22.42 from $19.94 a year ago.

management's discussion & analysis

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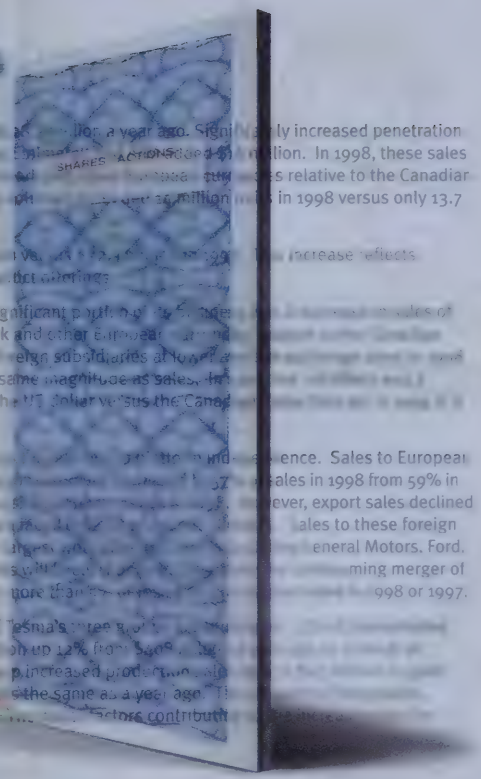

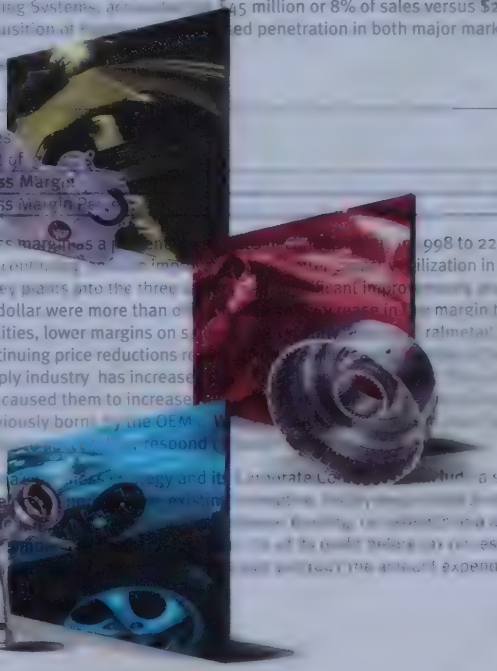

financial report

management's discussion & analysis

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STRATEGY

During 1998, Tesma contin[illegible] and implement its strategic plan [illegible] it to emerging and existing trends in the automotive supply industry and building on its positio[illegible] leading supplier across its engine, transmission and fueling product lines. These trends include: the consolidation of the supply base; the globaliza[illegible] of the remaining supply base; the increased outsourcing of more complex products and modules in the powertrain area; and, the early involvement [illegible] suppliers in the design and development of new automotive [illegible]. Tesma's goal is to improve on our reputation as a preferred [illegible] service powertrain supplier by identifying and taking full advant[illegible] ensuring continued growth in sales. So while the strategy is mo[illegible] to account for emerging industry trends the key elemen[illegible] innovation through continued emphasis on research and development; focus on complex, high value added [illegible] capitalizing on strong customer relationships and establis[illegible] new ones; pursuing internati[illegible] acquisitions, joint ventures and licensing arrangement[illegible] focusing on efficiency imp[illegible] motivated and continually upgrading their skills.

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RESULTS OF OPERATIONS

Sales

	1998	1997	Change
Production sales:			
North America	$ 427.6	$ 390.9	[illegible]
Europe	169.8	128.3	[illegible]
Tooling sales	48.5	[illegible]	[illegible]
Total sales	$ 645.9	[illegible]	[illegible]

Tesma's consolidated sales increased 17% to a record $645.9 million in 1998, compared to $[illegible] million in 1997. [illegible] increased [illegible] from $[illegible] decrease in North American production [illegible] General Motors [illegible] fourth quarter [illegible] growth in No[illegible] of Hughes, increased [illegible] existing products and new product launches which increased our North American vehicle content to $[illegible] from $[illegible] a year ago.

management's discussion & analysis

(continued)

European production sales increased more dramatically by 32% to $169.8 million versus $128.3 million a year ago. Significantly increased penetration within Europe contributed 90% of this increase while the inclusion of a full year's results at Eralmetall and ATM added $16 million. In 1998, these sales gains were somewhat offset by the continued decline in the value of the German deutschmark and other European currencies relative to the Canadian dollar. The overall market in Europe enjoyed another year of continued growth as vehicle volumes exceeded 14 million units in 1998 versus only 13.7 million a year ago.

Tooling sales, an indicator of new business activity, surged in 1998 by 50% to $48.5 million versus $32.3 million in 1997. This increase reflects Tesma's continued involvement in new customer programs and the broadening of our product offerings.

In 1998, the net impact of fluctuations in foreign currencies in which Tesma transacts a significant portion of its business was a decrease in sales of approximately 1%, primarily as a result of the decline in value of the German deutschmark and other European currencies relative to the Canadian dollar. The decrease occurs primarily on the translation of the results of self-sustaining foreign subsidiaries at lower average exchange rates in 1998 versus 1997 such that all items on the statement of income are affected, but none to the same magnitude as sales. In 1997, the net effect was a decrease of approximately 2%. Based on the relative strengths of these currencies and the US dollar versus the Canadian dollar thus far in 1999 it is expected that this trend will reverse in 1999.

As we continued our global expansion in 1998 our sales mix continued to reflect our product diversity and platform independence. Sales to European customers grew from 34% of sales in 1997 to 38% in 1998. As a result, sales to North American customers decreased to 57% of sales in 1998 from 59% in 1997. Our strategy of expanding our presence in other markets continued to provide new business opportunities in 1998. However, export sales declined to $32.5 million in 1998 versus $39.3 million in 1997 as markets in Asia and South America faced difficult economic climates. Sales to these foreign markets accounted for 5% of Tesma's sales in 1998 versus 7% a year ago. Sales to our four largest worldwide customers including General Motors, Ford, Chrysler and the Volkswagen group declined to 68% of sales versus 69% a year ago but this will likely change in 1999 given the forthcoming merger of Daimler Benz and Chrysler. No single engine, transmission or fueling system accounted for more than 5% of Tesma's consolidated sales in 1998 or 1997.

The Engine Systems Group, which includes the Litens Automotive Group, is the largest of Tesma's three groups accounting for 77% of consolidated production sales versus 79% a year ago. In 1998 production sales increased to $456 million up 12% from $408 million a year ago as a result of increased penetration in both North America and Europe. The Transmission Systems Group increased production sales 18% to $97 million in 1998 versus $82 million a year ago. This group represents 16% of consolidated production sales the same as a year ago. The smallest of the groups, Fueling Systems, accounted for $45 million or 8% of sales versus $29 million a year ago. The major factors contributing to the increase were the acquisition of Hughes and increased penetration in both major markets.

Gross Margin

	1998	1997	Change
Sales	**$ 645.9**	$ 551.5	+ 17%
Cost of goods sold	**502.2**	428.2	+ 17%
Gross Margin	**$ 143.7**	$ 123.3	+ 17%
Gross Margin Percentage	**22.3%**	22.4%	

Gross margin as a percentage of sales declined slightly in 1998 to 22.3% from 22.4% a year ago but still remains well ahead of the 21.4% level of 1996. The continuing positive improvements of better capacity utilization in Europe and North America through the merger of the business of the two smallest pulley plants into the three larger ones, significant improvements at all of the Company's facilities which have not yet reached profitability and a higher US dollar were more than offset by the 50% increase in low margin tooling sales, the costs associated with establishing the flexplate and oil pump facilities, lower margins on sales of the recently acquired Eralmetall and ATM operations, the continued weakness of the German deutschmark, and the continuing price reductions required under an increasing number of long-term contracts with OEMs. The continued consolidation within the automotive supply industry has increased the competition for contracts. This combined with the pressures the OEMs feel to reduce costs and remain competitive has caused them to increase the pressure on suppliers for price concessions and the absorption of engineering, design and other costs which were previously borne by the OEMs. While Tesma has programs in place to offset these demands, there can be no certainty that these programs will enable Tesma to successfully respond to future competitive pressures.

Tesma's business strategy and its Corporate Constitution include a strong emphasis on internal research and development activities in order to develop or improve upon existing innovative, highly engineered products and processing technologies. During 1998, the Company spent $14.1 million, net of government and customer funding, on research and development, an increase of 8% over 1997. The Corporate Constitution requires the Company to invest no less than 7% of its profit before tax on research and development, recognizing that this investment will ensure the long-term viability of the Company. In 1998 and 1997 the amount expended was in excess of 20% of Tesma's profit before tax.

management's discussion & analysis

(continued)

Operating Income

	1998	1997	Change
Gross margin	$ 143.7	$ 123.3	+ 17%
less:			
Depreciation and amortization	23.7	19.1	+ 24%
Selling, general and administrative	51.3	43.6	+ 18%
Interest, net	(0.4)	0.3	- 233%
Amortization of discount on Convertible Series Preferred Shares	1.2	3.0	- 60%
Affiliation fees and other charges	8.4	11.6	- 27%
Operating income	$ 59.5	$ 45.7	+ 30%

Operating income increased by 30% to $59.5 million in 1998 versus $45.7 million in 1997. The $20.4 million increase in gross margin combined with the reduced financing costs and affiliation fees were offset by the increase in S,G & A costs and depreciation and amortization charges. Tesma's North American operations contributed $49.2 million or 83% of consolidated operating income versus $39.0 million or 85%, respectively, in 1997. The Company's European operations contributed $10.3 million in 1998 versus $6.7 million a year ago.

Depreciation and amortization costs increased to $23.7 million in 1998 versus $19.1 million in 1997 (representing 3.7% of sales in 1998 compared to 3.5% in 1997) an increase of 24%. The growth in these costs continues to outpace sales as significant amounts of capital have been put into place in the past year in preparation for the launch of new business. The increased depreciation is a result of this continuing investment in capital assets, primarily new machinery and buildings, and the acquisition of subsidiaries completed over the past two years. In 1998 capital expenditures net of disposals, totaled $63.0 million, representing an increase of 39% over the prior year. Amortization expense increased in 1998 as a result of the additional amortization of the goodwill recorded on the acquisition of Hughes.

Selling, general and administrative expenses increased to $51.3 million in 1998 versus $43.6 million in 1997 but remained constant at 7.9% of consolidated sales. The absolute increase was attributable to the consolidation of the selling, general and administrative expenses of Eralmetall for a full year, the acquisitions of ATM and Hughes, the opening of the Aurora flexplate facility and ramp up of the STT facility, increased costs associated with the expansion of our international sales and engineering offices to serve our growing list of international customers, increased incentive based compensation (including the Tesma employee equity participation and profit sharing program (Tesma EPSP)) and an increased investment in employee training and development. These cost increases were partially offset as the current year's legal and litigation costs associated with the fuel cap infringement were lower than in 1997.

As a result of the net proceeds of Tesma's June 1997 treasury offering of Class A Subordinate Voting Shares the Company had net cash balances for all of 1998, and, accordingly, interest income increased to $1.2 million versus $0.5 million a year ago. Interest expense incurred primarily on long-term debt of the Company's European facilities was $0.9 million in 1998 versus $0.8 million in 1997. Overall Tesma reported net interest income of $0.4 million versus $0.3 million of net expense in 1997.

The amortization of the discount on the Convertible Series Preferred Shares declined by 60% in 1998 to $1.2 million from $3.0 million a year ago. The decline was a result of the June 1997 conversion of 110,250 of the Series 3 shares, the June 30, 1998 conversion of all remaining shares and the fact that the discount on Series 1, the largest series, had been fully amortized at the end of fiscal 1997.

Effective August 1, 1997 the revised affiliation agreement between Tesma and Magna took effect. Under the terms of this five year agreement, the affiliation fee will be calculated solely as 1% of Tesma's reported consolidated net sales. Under a separate agreement Tesma has also agreed to pay Magna a fee based on a specified percentage of pretax profits before profit sharing representing a contribution to social and charitable programs coordinated by Magna on behalf of Magna and its affiliated companies. This fee represents a significant portion of the 2% allocation for Social Responsibility as required under Tesma's Corporate Constitution. Other charges are negotiated annually and are based on the level of benefits and services provided by Magna to the Company. As a result of these new agreements, the affiliation fees and other charges decreased by 27% to $8.4 million in 1998 versus $11.6 million in 1997. The fees for 1998 consisted of an affiliation fee of $6.5 million, a social fee of $1.0 million and other charges of $0.9 million.

Income Before Income Taxes

	1998	1997	Change
Operating income	$ 59.5	$ 45.7	+ 30%
less:			
Litigation settlement	9.1		
Income before income taxes	$ 50.4	$ 45.7	+ 10%

On October 22, 1997 Tesma and Stant Manufacturing, Inc. ["Stant"] agreed on the terms of a settlement agreement relating to three patents which were the subject of a July 1997 jury verdict. The jury had found that a particular cap produced by the Company willfully infringed three U.S. patents owned by Stant. A $9.1 million provision for all present and future costs related to this settlement has been provided for in the current fiscal year. The agreement allows the Company to continue manufacturing the current cap only until July 31, 2001. Despite this settlement, income before income taxes increased to $50.4 million in 1998, up 10% from $45.7 million in 1997.

management's discussion & analysis

(continued)

Net Income

	1998	1997	Change
Income before income taxes	$ 50.4	$ 45.7	+ 10%
less:			
Income taxes	20.7	19.2	+ 8%
Net income	29.7	26.5	+ 12%
Dividends on Convertible Series Preferred Shares [net of return of capital]	(2.9)	(1.9)	
Net income attributable to Class A Subordinate Voting Shares and Class B Shares	$ 26.8	$ 24.6	+ 9%

Tesma's effective income tax rate decreased to 41.1% in 1998 versus 42.1% a year ago. The main reasons for the drop in the effective tax rate were the decrease in the amortization of the discount on the Convertible Series Preferred Shares which is not deductible for tax purposes and the reduction of losses at subsidiaries where the losses are not benefited, partially offset by an increase in taxable income in foreign jurisdictions where tax rates exceed those in Canada. These three items are also the main reasons why Tesma's tax rates exceed expected Canadian income tax rates. As a result of the higher income before income taxes and the drop in the income tax rate Tesma's net income increased by 12% to $29.7 million in 1998 from $26.5 million in 1997.

The deduction from net income of dividends declared on Convertible Series Preferred Shares (net of a return of capital) of $2.9 million in 1998 versus $1.9 million a year ago provided net income attributable to Class A Subordinate Voting Shares and Class B Shares of $26.8 million, an increase of 9% over the $24.6 million reported in 1997.

Earnings Per Share

	1998	1997	Change
Earnings Per Share Class A Subordinate Voting Share or Class B Share			
Basic	$ 1.14	$ 1.31	- 13%
Fully diluted	$ 1.05	$ 1.13	- 7%
Fully diluted excluding litigation settlement	$ 1.25	$ 1.13	+ 11%
Average Number of Class A Subordinate Voting Shares or Class B Shares Outstanding			
Basic	23.4	18.8	+ 24%
Fully diluted	30.0	26.6	+ 13%

On a fully diluted basis, earnings per Class A Subordinate Voting Share or Class B Share decreased 7% to $1.05 in 1998 from $1.13 in 1997, a result of the litigation settlement and a 13% increase in the number of fully diluted shares outstanding during 1998. Excluding the litigation settlement, fully diluted earnings per share would have increased to $1.25 or 11% higher than in 1997 despite the aforementioned increase in the outstanding shares.

Basic earnings per Class A Subordinate Voting Share or Class B Share decreased 13% to $1.14 in 1998 from $1.31 in 1997, again a result of the litigation settlement and the 24% increase in the weighted average number of basic shares outstanding. The basic share increase was larger due to the fact that a large portion of the shares issued in 1998 were done so on the exercise of securities already included in the fully diluted share number.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

	1998	1997
Cash provided from (used for):		
Operating Activities	$ 53.2	$ 30.9
Investing Activities	(73.9)	(49.8)
Financing Activities	(11.1)	59.4
Net increase (decrease) in cash	$ (31.8)	$ 40.5

Cash balances at July 31, 1998, net of bank indebtedness, were $38.0 million versus $68.3 million a year earlier. The decline in the cash balance by $31.8 million was a result of the increase in investing activities, repayment of debt and payment of dividends partially offset by the cash generated by operating activities and the proceeds received on the issuance of Class A Subordinate Voting Shares.

management's discussion & analysis

(continued)

Operating Activities

	1998	1997
Net income	$ 29.7	$ 26.5
Items not involving current cash flows	28.6	26.8
Net change in non-cash working capital	(5.1)	(22.4)
Cash provided from operating activities	$ 53.2	$ 30.9

During 1998, Tesma's cash provided from operating activities increased by $22.3 million to $53.2 million, as compared to $30.9 million in 1997. This increase is a result of the increase in net income before non-cash expenses and the significant decrease in the amount of non-cash working capital invested in 1998 to support the much higher level of sales. In 1998, an additional $5.1 million was invested in non-cash working capital primarily for accounts receivable and inventory offset by a corresponding yet disproportionate increase in accounts payable and other accrued liabilities.

Investing Activities

	1998	1997
Fixed asset additions	$ 65.0	$ 48.1
Other asset increases	5.6	1.8
Purchase of subsidiaries, net of cash acquired	5.3	2.5
Proceeds from asset disposals	(2.0)	(2.6)
Cash used for investing activities	$ 73.9	$ 49.8

Capital and investment spending totaled $73.9 million (net of proceeds from dispositions and cash acquired on acquisition of subsidiaries) in 1998 compared to $49.8 million in 1997. Additions to fixed assets increased by 35% to $65.0 million in 1998 versus $48.1 million last year. Capital spending included $14.2 million for land and buildings and the balance for new equipment primarily for new business at our North American aluminum die casting facility, the flexplate facility and the new waterpump and oil pump facilities. New assets purchased for North American facilities accounted for 87% of capital spending versus 78% in 1997, while 13% was for the Company's European subsidiaries versus 22% a year ago. Other asset spending of $5.6 million in 1998 consisted primarily of $1.9 million for customer tooling and $2.8 million of deferred preproduction costs at the Company's new waterpump facility.

During 1998, the Company spent $5.3 million, net of cash acquired, to purchase 100% of the shares of Hughes and the remaining shares and advances of ATM. In 1997, the Company spent $2.5 million, net of cash acquired to purchase Eralmetall. Capital spending in 1999 is expected to be in the range of $75 million, primarily to support newly awarded production contracts, manufacturing facilities, required maintenance improvements and other process related expenditures. On September 3, 1998, the Company signed an agreement to purchase 100% of the outstanding shares of Triam Automotive Corporation ["Triam"] from Magna. Triam is a US based manufacturer of powertrain and other components for the automotive industry. The purchase price consists of a $36 million payment on closing, less assumed long-term debt and other indebtedness, and an earnout of up to $4 million contingent on Triam attaining certain predetermined levels of EBITDA over the next five years. This transaction was reviewed by a special committee of the board of directors. Management believes that cash balances on hand, existing unutilized credit facilities, and internally generated funds from operations will be sufficient to meet all planned capital requirements and the acquisition of Triam.

Financing Activities

	1998	1997
Issuance of Class A Shares	$ 61.9	$ 78.8
Conversion of Preference Shares	(58.4)	(9.9)
Net repayment of debt and indebtedness	(4.8)	(1.0)
Dividends	(9.8)	(8.5)
Cash provided from (used for) financing activities	$ (11.1)	$ 59.4

During 1998 the Company issued 5.7 million Class A Subordinate Voting Shares for consideration of $61.9 million. In June 1998, Magna and the other three holders of the remaining 589,750 Convertible Series Preferred Shares converted all of their holdings into 5,349,204 fully paid Class A Subordinate Voting Shares, at a rate of $11.025 per share. The $59.5 million carrying value on the Company's books on the date of conversion has been reflected as the consideration received for these Class A Subordinate Voting Shares. The remaining 330,500 shares were issued at $10.50 on the exercise of options under Tesma's amended and restated stock option plan. The cash provided from operating activities and the proceeds from the issuance of shares were used to reduce net long-term debt and other indebtedness in the amount of $4.8 million and to pay dividends on the Convertible Series Preferred Shares, Class A Subordinate Voting Shares and Class B Shares in the amount of $9.8 million.

Tesma's Corporate Constitution requires the payments of dividends of at least 20% of after-tax profits (after providing for any preference share dividends) on a rolling two year basis beginning in fiscal 1998 after being set at 10% for our first two years as a public company. To keep within these parameters the Board of Directors increased the quarterly dividend rate by 40% in March 1998 to $0.07 per quarter such that dividends of $6.3 million (24 cents per share) were declared on the Class A Subordinate Voting Shares and Class B Shares on account of fiscal 1998 versus $4.1 million (20 cents per share) in 1997. Dividends paid have been financed out of cash flow from operations.

management's discussion & analysis

(continued)

Foreign Currency activities

Tesma negotiates sales contracts with North American customers in both Canadian and U.S. dollars. Materials and equipment are purchased in various currencies depending upon competitive factors, including relative currency values. Tesma's current Canadian production (approximately 71% of consolidated sales) uses primarily Canadian labour and materials which are paid for in Canadian dollars. Tesma's Canadian production sales are invoiced and paid for substantially in Canadian dollars, U.S. dollars, German deutschmarks and Italian lira.

Tesma's European sales contracts with European OEMs are principally negotiated in German deutschmarks. Materials, equipment and labour are paid for principally in German deutschmarks or Austrian schillings, a currency which historically has had a relatively stable rate of exchange to the German deutschmark.

Tesma's U.S. production contracts with North American OEMs are negotiated in US dollars and our materials, equipment and labour are also paid for principally in US dollars.

A portion of Tesma's foreign currency inflows, which result from the Company's commitment to deliver products for which the selling price has been quoted in a foreign currency, are naturally hedged through the purchase of materials and capital equipment denominated in these currencies. In an effort to manage the remaining exposure Tesma employs hedging programs primarily through the use of foreign exchange forward contracts that extend for periods of up to six years.

The amount and timing of the forward contracts is dependent upon anticipated production and delivery schedules and anticipated payment dates. Tesma is exposed to credit risk from the potential default by any of its counterparties on its foreign exchange forward contracts, but mitigates this risk by dealing with only those counterparties considered to be high quality credits. Despite these measures, significant long-term movements in relative currency values could affect Tesma's results of operations. In particular, Tesma's results of operations may be adversely affected by a strengthening of the Canadian dollar against the U.S. dollar. In addition, Tesma does not hedge the business activities of self-sustaining foreign subsidiaries, and accordingly, Tesma's results of operations could be further affected by a significant change in the value of the Canadian dollar against the German deutschmark or the U.S. dollar.

Year 2000

The Year 2000 ("Y2K") Issue arises because many computerized systems use two digits rather than four to identify a year. Date sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in erroneous processing. The effects of the Year 2000 Issue may be experienced on or before January 1, 2000, and if not addressed, may have an impact on the financial reporting and operations of the Company. The effect could range from minor errors to complete failures, which could adversely affect the normal business operations of the Company.

The Company is undertaking a study of all its critical manufacturing and information systems to identify the remediation needs. All systems, which are identified as not being Y2K compliant, are diagnosed through analysis, testing and communication with various hardware and software providers. Methods of achieving Y2K readiness are categorized as follows:

i) Readiness through system replacement
ii) Readiness through system upgrade, either through introduction of a new release or version of the existing system, or a patch provided by the supplier.
iii) Readiness to be achieved by fixing or repairing the existing system.

The Company has developed a remediation plan with an estimated cost of approximately $1.1 million, of which $0.3 million has been incurred to date. With the Company's current plan, it is hoped that all Y2K compliance issues will be resolved by the end of fiscal 1999. Approximately half of the identified upgrades have been completed to date.

However, it is not possible to ascertain all the potential effects of all aspects of the Y2K Issue, including its effect on customers, suppliers and other third parties. There exists the possibility, that all of these issues may not be resolved before the Year 2000.

Euro Currency

Effective January 1, 1999, under the terms of the European Monetary Union ("EMU"), the Company's European operations will require capability of operating in the new EMU currency, the "Euro", as well as their domestic currency. Although compliance is voluntary during the initial phase in period, customers as well as suppliers have made demands that the Company be compliant immediately. In order to achieve full dual currency capabilities, the Company's current financial information systems have required modifications.

Since the Company relies on externally developed and maintained software in most of its financial applications, it has sought the assistance of external providers to make the necessary modifications or obtained assurance that the current system is compliant.

The Company is making every effort to ensure all of its systems will be compliant on or before January 1, 1999.

Outlook

Management expects worldwide production of vehicles to approximate 50 million units in 1999, with growth in European markets offset by declines in Asian and South American markets. North American production is expected to remain at current levels while production in Europe is anticipated to increase in the range of 2%. During 1999, Tesma will launch significant new business at its aluminum die casting facilities, flexplate facility and most importantly its new waterpump facility. The success of these launches will have a direct impact on the near term success of the Company in 1999 and 2000. In addition, the acquisition of Triam will add over $40 million in sales in 1999 and based on its historic operating performance will be accretive to Tesma's earnings. As a result of this and other new contracts commencing in 1999, anticipated continued outsourcing by the OEM's in the engine and transmission areas, requirements for global sourcing and increased development work which should lead to production contracts, management anticipates, without making assurances as to future results, continued growth in sales and earnings.

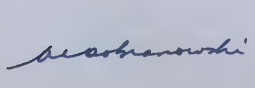
management's responsibility for financial reporting

Tesma's management is responsible for the preparation and presentation of the consolidated financial statements and all other information in this Annual Report. The consolidated financial statements were prepared by management in accordance with generally accepted accounting principles, and, where appropriate, reflect estimates based upon the judgement of management. Where alternative accounting methods exist, management has selected those that it considered to be the most appropriate in the circumstances. Financial information presented elsewhere in this Annual Report has been prepared by management on a basis consistent with the consolidated financial statements. The consolidated financial statements have been reviewed by the Audit Committee and approved by the Board of Directors of Tesma.

Management is responsible for the development and maintenance of systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is accurate, relevant and reliable, and that Tesma's assets are appropriately accounted for and adequately safeguarded.

Tesma's Audit Committee is appointed by the Board of Directors and is completely comprised of outside directors. The Committee meets periodically with management, as well as with the independent auditors, to satisfy itself that each is properly discharging its responsibilities, to review the consolidated financial statements and the independent Auditors' Report and to discuss significant financial reporting issues and auditing matters. The Audit Committee reports its finding to the Board of Directors for consideration when approving the consolidated financial statements for issuance to the shareholders. The consolidated financial statements have been audited by Ernst & Young, the independent auditors, in accordance with generally accepted auditing standards on behalf of the shareholders of Tesma. The Auditors' Report outlines the nature of their examination and their opinion on Tesma's consolidated financial statements. The independent auditors have full and unrestricted access to the Audit Committee.

Toronto, Canada
September 15, 1998



Anthony E. Dobranowski
Executive Vice President
and Chief Financial Officer

James L. Moulds
Controller

auditor's report

To the Shareholders of **Tesma International Inc.**

We have audited the consolidated balance sheets of **Tesma International Inc.** as at July 31, 1998 and 1997 and the consolidated statements of income and retained earnings and cash flows for each of the years in the three-year period ended July 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 1998 and 1997 and the results of its operations and the changes in its financial position for each of the years in the three-year period ended July 31, 1998 in accordance with accounting principles generally accepted in Canada.

Toronto, Canada,
September 15, 1998.

Chartered Accountants

significant accounting policies

basis of presentation
The consolidated financial statements of Tesma International Inc. and its subsidiaries ["the Company"] have been prepared in Canadian dollars following accounting policies generally accepted in Canada, which in the case of the Company generally conform with accounting policies generally accepted in the United States, except as described in Note 20.

principles of consolidation
The consolidated financial statements include the accounts of the Company. The Company accounts for its interests in joint ventures using the proportionate consolidation method. All significant intercompany balances and transactions have been eliminated.

management's estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Management believes that the estimates utilized in preparing its consolidated financial statements are reasonable and prudent; however, actual results could differ from these estimates.

cash
Cash includes cash on account, demand deposits and short-term investments with original maturities of three months or less. Cost approximates fair value.

inventories
Inventories are valued at the lower of cost and net realizable value, with cost being determined substantially on a first-in, first-out basis. Cost includes the cost of materials plus direct labour applied to the product and the applicable share of manufacturing overhead.

fixed assets
Fixed assets are recorded at historical cost, including interest capitalized on construction in progress, less related investment tax credits and government grants.

Depreciation is provided on a straight-line basis over the estimated useful lives of fixed assets at annual rates of 2 1/2% to 5% for buildings, 7% to 10% for general purpose equipment and 10% to 30% for special purpose equipment.

other assets
Goodwill, which is the excess of the purchase price of the Company's interest in subsidiary companies over the fair value of the underlying net identifiable assets arising on acquisitions, is amortized over periods not exceeding 40 years. Goodwill is evaluated in each reporting period to determine if there were events or circumstances which would indicate a possible inability to recover the carrying amount. Such evaluation is based on various analyses including profitability projections and undiscounted future cash flows.

Costs incurred in establishing new facilities which require substantial time to reach commercial production capability are capitalized as deferred preproduction costs. Amortization is provided over periods up to five years from the date commercial production is achieved.

The Company accounts for its investments in which it has significant influence on the equity basis.

revenue recognition
Revenue from sales of manufactured products is recognized upon shipment to customers.

government financing
The Company makes periodic applications for financial assistance under available government assistance programs in the various jurisdictions in which the Company operates. Grants relating to capital expenditures are reflected as a reduction of the cost of the related assets. Grants and tax credits relating to current operating expenditures are recorded as a reduction of expense at the time the eligible expenses are incurred. The Company also receives loans which are recorded as liabilities in amounts equal to the cash received.

research and development
The Company carries out various applied research and development programs, certain of which are partially or fully funded by government or by customers of the Company. Funding received is accounted for using the cost reduction approach. Research costs are expensed as incurred.

foreign exchange
Assets and liabilities of foreign subsidiaries and investees, all of which are self-sustaining, are translated using the exchange rate in effect at the end of the year and revenues and expenses are translated at the average rate during the year. Exchange gains or losses on translation of the Company's net equity investment in these foreign subsidiaries and investees are deferred as a separate component of shareholders' equity. The appropriate amounts of exchange gains or losses accumulated in the separate component of shareholders' equity are reflected in income when there is a reduction in the Company's investment in these subsidiaries and investees as a result of capital transactions.

Foreign exchange gains and losses on transactions during the year are reflected in income except for gains and losses on foreign exchange forward contracts used to hedge specific future commitments in foreign currencies. Gains or losses on these contracts are accounted for as a component of the related hedged transaction.

income taxes
The Company follows the deferral method of tax allocation in accounting for income taxes. Under this method, timing differences between accounting and taxable income result in the recording of deferred income taxes.

Investment tax credits relating to fixed asset purchases and research and development expenditures are accounted for as a reduction of the cost of such assets and expenses, respectively.

Income taxes related to unremitted earnings of foreign subsidiaries are not provided for by the Company, as such earnings are considered to be indefinitely reinvested in foreign operations.

consolidated balance sheets

	Note	As at July 31 1998	1997
		[Canadian dollars in thousands]	
ASSETS			
Current			
Cash		$ 43,998	$ 75,810
Accounts receivable	17	90,340	75,677
Inventories	4	57,991	42,918
Prepaid expenses and other		5,857	6,895
Income taxes receivable	7	-	1,420
		198,186	202,720
Fixed assets	5	186,583	138,442
Other assets	6	14,562	8,333
		$ 399,331	$ 349,495
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Bank indebtedness	8	$ 6,002	$ 7,469
Accounts payable	17	43,897	37,179
Accrued salaries and wages		16,054	14,448
Other accrued liabilities		32,015	20,314
Income taxes payable	7	310	-
Long-term debt due within one year	8	4,036	4,549
		102,314	83,959
Long-term debt	8	14,019	13,358
Deferred income taxes	7	21,525	20,050
Convertible Series Preferred Shares	9	-	57,197
SHAREHOLDERS' EQUITY			
Convertible Series Preferred Shares	9	-	2,596
Class A Subordinate Voting Shares	10	179,367	116,413
Class B Shares	10	2,583	2,583
Retained earnings		77,085	55,721
Currency translation adjustment	12	2,438	(2,382)
		261,473	174,931
		$ 399,331	$ 349,495

Commitments and contingencies *[notes 8 and 19]*

See accompanying notes

On behalf of the Board: Director Director

Tesma International Inc. **Incorporated under the laws of Ontario**

consolidated statements of income and retained earnings

	Note	Years ended July 31 1998	1997	1996
		[Canadian dollars in thousands, except per share figures]		
Sales	17	**$ 645,894**	$ 551,518	$ 455,580
Cost of goods sold	17	**502,164**	428,151	358,202
Depreciation and amortization		**23,676**	19,058	14,829
Selling, general and administrative		**51,299**	43,609	33,940
Interest, net	8,17	**(356)**	335	343
Amortization of discount on Convertible Series Preferred Shares	9	**1,232**	3,052	2,988
Affiliation fees and other charges	17	**8,415**	11,596	9,991
Income before litigation settlement and income taxes		**59,464**	45,717	35,287
Litigation settlement	18	**9,132**		
Income before income taxes		**50,332**	45,717	35,287
Income taxes	7	**20,678**	19,239	15,792
Net income		**29,654**	26,478	19,495
Dividends on Convertible Series Preferred Shares [net of return of capital]	9	**(2,876)**	(1,864)	(956)
Net income attributable to Class A Subordinate Voting Shares and Class B Shares		**26,778**	24,614	18,539
Retained earnings, beginning of year		**55,721**	34,953	19,105
Dividends		**(5,414)**	(3,846)	(2,691)
Retained earnings, end of year		**$ 77,085**	$ 55,721	$ 34,953
Earnings per Class A Subordinate Voting Share or Class B Share				
Basic	11	**$ 1.14**	$ 1.31	$ 1.03
Fully diluted	11	**$ 1.05**	$ 1.13	$ 0.91
Average number of Class A Subordinate Voting Shares and Class B Shares outstanding during the year *[in millions]*				
Basic	11	**23.4**	18.8	18.0
Fully diluted	11	**30.0**	26.6	25.1

See accompanying notes

Tesma International Inc.

consolidated statements of cash flows

	Note	Years ended July 31 1998	1997	1996
		[Canadian dollars in thousands]		
Cash Provided From (used for):				
OPERATING ACTIVITIES				
Net income		$ 29,654	$ 26,478	$ 19,495
Items not involving current cash flows	14	28,656	26,815	20,183
		58,310	53,293	39,678
Net change in non-cash working capital	14	(5,096)	(22,386)	(2,054)
		53,214	30,907	37,624
INVESTING ACTIVITIES				
Fixed asset additions		(64,960)	(48,052)	(29,175)
Increase in other assets		(5,636)	(1,802)	(1,142)
Purchase of subsidiaries	3	(7,947)	(2,584)	
Proceeds from disposition of fixed assets and other		1,979	2,620	1,041
Cash acquired on purchase of subsidiaries	3	2,665	35	
		(73,899)	(49,783)	(29,276)
FINANCING ACTIVITIES				
Repayment of notes receivable from employees		242	543	551
Decrease in bank indebtedness		(1,467)	(104)	(3,272)
Issues of long-term debt	8	2,388	1,915	94
Repayments of long-term debt	8	(5,928)	(3,300)	(1,955)
Repayments of debt due to Magna, net				(9,944)
Conversion of Convertible Series Preferred Shares	9	(58,429)	(9,910)	
Issuance of Class A Subordinate Voting Shares, net of related costs	9,10	61,899	78,799	(95)
Dividends on Class A Subordinate Voting Shares and Class B Shares		(5,414)	(3,846)	(2,691)
Dividends on Convertible Series Preferred Shares		(4,418)	(4,675)	(3,565)
		(11,127)	59,422	(20,877)
Net increase (decrease) in cash during the year		(31,812)	40,546	(12,529)
Cash, beginning of year		75,810	35,264	47,793
Cash, end of year		$ 43,998	$ 75,810	$ 35,264

See accompanying notes

Tesma International Inc.

notes to consolidated financial statements

1. significant accounting policies

The significant accounting policies followed by the Company are set out under "Significant Accounting Policies" preceding these consolidated financial statements.

2. joint ventures

The Company accounts for its 76.77% interest in the Litens Automotive Partnership ["LAP"] and its subsidiaries, and its 45% interest in STT Technologies Inc. ["STT"] using the proportionate consolidation method as the Company has joint control of both of these ventures.

The consolidated financial statements include the Company's proportionate share of the revenues, expenses, assets and liabilities of its joint ventures as follows:

Results of Operations	**1998**	1997	1996
		[Canadian dollars in thousands]	
Sales	**$ 300,397**	$ 266,480	$ 213,809
Cost of goods sold	**231,323**	205,280	166,032
Other expenses	**46,600**	41,259	31,709
Net income, after tax allocation	**$ 22,474**	$ 19,941	$ 16,068

Financial Position	**1998**	1997
	[Canadian dollars in thousands]	
ASSETS		
Current assets	**$ 75,848**	$ 64,245
Long-term assets	**24,374**	19,196
Total assets	**$ 100,222**	$ 83,441
LIABILITIES AND EQUITY		
Current liabilities	**$ 37,571**	$ 27,574
Loans from partners	**17,617**	16,217
Equity *[i]*	**45,034**	39,650
Total liabilities and equity	**$ 100,222**	$ 83,441

Changes in Financial Position	**1998**	1997	1996
		[Canadian dollars in thousands]	
Cash provided from (used for):			
Operating activities	**$ 41,730**	$ 19,098	$ 24,247
Investing activities	**(7,369)**	(7,550)	(5,109)
Financing activities *[ii]*	**(29,142)**	(10,948)	(19,762)
	$ 5,219	$ 600	$ (624)

[i] Included in equity are undistributed earnings of $36.3 million [1997 - $32.6 million].

[ii] Included in cash flow from financing activities is a net cash distribution to the Company of $27.5 million [1997 - $12.6 million; 1996 - $15.8 million].

Pursuant to agreements amongst the partners of LAP, the net income of LAP is to be distributed annually to the partners and each partner is required to loan back to LAP approximately 35% of such distribution, unless otherwise determined by the management committee of LAP. No amounts were required to be loaned back to LAP during the years ended July 31, 1998, 1997 or 1996. The management committee is responsible for overseeing and directing the operations and management of LAP and is comprised of four members of which the Company is entitled to appoint two.

The repayment of LAP partners' capital of $7.4 million [1997 - $7.4 million] and loans are subject to the approval of the management committee. STT shareholders' loans of $1.4 million [1997 - nil] are repayable August 1, 1999 or earlier at the option of STT.

During 1998, pursuant to agreements amongst the shareholders of STT, the Company acquired an additional 300 Series 1 Preferred Shares [1997 – 1,200; 1996 – 300] of STT at a price of $1,000 per share.

3. business acquisitions

[a] Fiscal 1998 Acquisitions

In February 1998, the Company completed the acquisition of 100% of the outstanding shares of Hughes Manufacturing, Inc., a U.S. based manufacturer of automotive vent and filler tubes for cash consideration of $7.7 million.

In January 1998, the Company completed the acquisition of the remaining outstanding shares and shareholder advances of ATM Aluminium Technique Moselle S.a.r.l. ["ATM"] for cash consideration of $0.3 million.

These acquisitions have been accounted for under the purchase method of accounting and the results of operations are included in the Company's financial statements since January 1, 1998 and January 31, 1998, respectively. Details of the net effect of these transactions are as follows:

	[Canadian dollars in thousands]
Non-cash working capital	$ 501
Fixed assets	2,592
Other assets	225
Cash	2,665
Long-term debt [including portion due within one year]	(1,475)
Net identifiable assets acquired	4,508
Goodwill upon acquisitions	3,439
Net purchase price	$ 7,947

If these acquisitions had occurred on August 1, 1997, the unaudited proforma sales of the Company for fiscal 1998 would have been $652.8 million and the net income would have increased by $0.9 million.

[b] Fiscal 1997 Acquisitions

On January 31, 1997, the Company completed the acquisition of 100% of the outstanding shares and shareholder advances of Eralmetall GmbH ["Eralmetall"], a German aluminum die and gravity mould caster, which consisted of two manufacturing facilities in Germany and an equity interest in ATM. The total purchase price was $2.5 million, of which $1.2 million was paid on closing and the balance, accruing interest at 4% per annum, is payable as follows: $0.1 million on February 1, 1999; and $1.2 million on February 1, 2000. The acquisition was accounted for using the purchase method of accounting.

notes to consolidated financial statements
(continued)

The results of operations are included in the Company's consolidated financial statements from the date of acquisition and the net effect of the transaction is as follows:

	[Canadian dollars in thousands]
Non-cash working capital	$ (5,993)
Fixed assets	11,167
Other assets	1,911
Cash	35
Bank indebtedness	(914)
Long-term debt [including portion due within one year]	(3,622)
Net identifiable assets acquired and total purchase price	$ 2,584

If the acquisition had occurred on August 1, 1996, the unaudited proforma sales of the Company for fiscal 1997 would have been $568.6 million and the net income would have been reduced by $2.0 million.

4. inventories

Inventories consist of:

	1998	1997
	[Canadian dollars in thousands]	
Raw materials and supplies	$ 16,401	$ 15,177
Work-in-process	12,191	9,611
Tooling	8,968	4,986
Finished goods	20,431	13,144
	$ 57,991	$ 42,918

5. fixed assets

Fixed assets consist of:

	1998	1997
	[Canadian dollars in thousands]	
Land	$ 14,891	$ 9,054
Buildings *[i]*	43,519	31,706
Machinery and equipment *[i]*	215,896	179,123
Construction in progress	21,086	6,821
	295,392	226,704
Accumulated depreciation *[ii]*	108,809	88,262
	$ 186,583	$ 138,442

[i] The cost of certain fixed assets has been reduced by government grants of $1.6 million [1997 - $1.3 million]. Under the terms and conditions of the grants, certain subsidiaries of the Company are required to maintain specified levels of employment, for specified periods of time, and the Company is required to maintain a minimum level of equity or subordinated shareholder debt in one of these subsidiaries.

[ii] Accumulated depreciation includes $7.2 million for buildings [1997 - $4.9 million] and $101.6 million for machinery and equipment [1997 - $83.4 million].

6. other assets

Other assets consist of:

	1998	1997
	[Canadian dollars in thousands]	
Goodwill	$ 8,474	$ 5,029
Accumulated amortization	(1,725)	(1,018)
	6,749	4,011
Deferred preproduction costs	2,781	-
Investments	1,230	1,141
Other	3,802	3,181
	$ 14,562	$ 8,333

7. income taxes

[a] Rate Reconciliation

The provision for income taxes differs from the expense that would be obtained by applying Canadian statutory rates as a result of the following:

	1998	1997	1996
Canadian statutory income tax rate	44.6%	44.6%	44.6%
Manufacturing and processing profits deduction	(9.0)	(9.0)	(9.0)
Expected income tax rate	35.6	35.6	35.6
Amortization of discount on Convertible Series Preferred Shares	0.9	2.4	3.0
Foreign rate differentials	3.2	2.2	0.3
Losses of subsidiaries not tax benefitted	0.7	1.5	4.3
Other	0.7	0.4	1.6
Effective income tax rate	41.1%	42.1%	44.8%

[b] Provision

The details of the income tax provision are as follows:

	1998	1997	1996
	[Canadian dollars in thousands]		
Current provision			
Canadian federal taxes	$ 7,678	$ 7,690	$ 7,486
Provincial taxes	4,579	4,635	4,284
Foreign taxes	7,044	4,624	2,935
	19,301	16,949	14,705
Deferred provision			
Canadian federal taxes	1,090	2,002	1,290
Provincial taxes	665	1,221	787
Foreign taxes	(378)	(933)	(990)
	1,377	2,290	1,087
	$ 20,678	$ 19,239	$ 15,792

notes to consolidated financial statements
(continued)

[c] Deferred Tax Provision

Deferred income taxes have been provided on timing differences which consist of the following:

	1998	1997	1996
	[Canadian dollars in thousands]		
Tax deferred income	$ (114)	$ 1,407	$ 635
Tax depreciation in excess of book depreciation	332	753	1,496
Preproduction costs, capitalized for accounting, deducted for tax	991	-	-
Other	168	130	(1,044)
	$ 1,377	$ 2,290	$ 1,087

[d] Taxes Paid

Income taxes paid in cash were $16.7 million [1997 - $21.9 million; 1996 - $9.7 million].

[e] Loss Carryforwards

At July 31, 1998, certain subsidiaries of the Company have tax loss carryforwards, in various jurisdictions, of approximately $28.6 million. Of these losses, $28.3 million have no expiry date and $0.3 million expire between 2003 and 2005. The tax benefits of $20.8 million of these losses have not been recognized in the consolidated financial statements.

8. debt and commitments

[a] Long-Term Debt

The Company's long-term debt consists of the following:

	1998	1997
	[Canadian dollars in thousands]	
Loans from governments [non-interest bearing]	$ 632	$ 1,438
Loans from governments [at a weighted average interest rate of 4.9%]	732	295
Holdback on purchase of subsidiary *[Note 3[b]]*	1,340	1,340
Bank term debt *[Note 8[b]]*	15,351	14,834
	18,055	17,907
Less amount due within one year	4,036	4,549
	$ 14,019	$ 13,358

[b] Bank Term Debt

Bank term debt consists of:

[i] Term debt of $4.1 million [AS 33.8 million] [1997 - $5.5 million (AS 52.5 million)] advanced under a total line of $4.1 million. The interest on this debt was 4% per annum until June 30, 1996, at which time the rate was adjusted to 5%. For all future periods interest is payable quarterly in advance and the rate is based on the SMR [Secondary Market Rate of Industry Bonds] but cannot exceed 6% nor be less than 4% per annum. The loan is collateralized by certain land, building and machinery and equipment. The loan agreement provides for the maintenance of a certain ratio of other debt and equity to this loan as well as for a minimum level of investment in land, building and machinery and equipment. In September 1997, an additional repayment of $1.1 million [AS 9 million] was made as the minimum level of investment was not attained. The loan is repayable in equal semi-annual installments and matures January 1, 2002.

[ii] Other long-term debt of $6.0 million [AS 50 million] [1997 - $5.8 million (AS 55 million)] advanced under a total line of $6.0 million. Interest is currently payable at VIBOR [Vienna Interbank Overnight Rate] plus 3/4%. The loan is repayable in equal semi-annual installments and matures December 31, 2002.

[iii] Bank term debt of $4.4 million [DM 5.3 million] [1997 - $3.6 million (DM 4.8 million)] advanced under total lines of $4.4 million. Interest is currently payable at fixed rates ranging from 5.95% to 7.75% with the weighted average rate being 6.79%. The principal amounts are repayable at various intervals over the next ten years. This debt is collateralized by land, building and specific assets of certain subsidiaries.

[iv] Additional secured bank term debt of $0.9 million [FF3.2 million] under total lines of $0.9 million. Interest is payable at a variable rate of PIBOR [Paris Interbank Overnight Rate] plus 1.8% on a portion of the debt and a fixed rate of 8.25% on the remainder. The principal and interest on these loans is repayable at regular intervals over the next three years.

[c] Principal Repayments

Future annual principal repayments on long-term debt are estimated to be as follows for the years ending July 31:

	[Canadian dollars in thousands]
1999	$ 4,036
2000	5,128
2001	3,164
2002	2,256
2003	1,561
Thereafter	1,910
	$ 18,055

[d] Operating Lines

[i] The Company has an unsecured $40 million operating line of credit bearing interest at variable rates per annum not exceeding the bank's prime rate of interest. The Company had outstanding letters of credit in the amount of $2.9 million drawn under this line of credit. At July 31, 1998, $37.1 million of this line was unused and available.

[ii] LAP has an unsecured operating line of credit in the amount of $15 million for which the related credit agreement provides for the maintenance of certain financial ratios. LAP had outstanding letters of credit in the amount of $1.1 million drawn under this line of credit. As at July 31, 1998, $13.9 million was unused and available. LAP also has foreign exchange facilities in the amount of U.S.$100 million [see Note 8[h]]. One of LAP's subsidiaries has unsecured demand lines of credit totalling $5.9 million [DM 7 million] all of which was unused and available at July 31, 1998.

[iii] The Company has various operating lines of credit for its European subsidiaries denominated in both German deutschmarks and Austrian schillings of $7.6 million. As at July 31, 1998, $1.6 million of these lines were unused and available. Interest is payable at VIBOR plus 1/2% [LIBOR plus 1/2% for drawings in foreign currencies] for loans denominated in Austrian schillings. Interest on German deutschmark denominated loans is payable at both prime rate and fixed rates between 5.00% and 8.50%. Accounts receivable and certain assets of subsidiaries have been pledged as collateral under these lines of credit.

notes to consolidated financial statements
(continued)

[e] Interest Paid

Interest paid includes:

	1998	1997	1996
	[Canadian dollars in thousands]		
Interest on long-term debt	$ 890	$ 843	$ 758
Other interest income, net - external	(1,271)	(517)	(583)
Interest expense - debt due to Magna	25	9	168
Interest paid (received) for the year	$ (356)	$ 335	$ 343

[f] Operating Leases

The Company had commitments under operating leases requiring minimum annual rental payments for the years ending July 31 as follows:

	[Canadian dollars in thousands]
1999	$ 3,473
2000	2,820
2001	2,316
2002	1,792
2003	890
Thereafter	2,191
	$ 13,482

Approximately 28% [1997 - 27%] of these lease commitments represent the Company's share of commitments of its proportionately consolidated joint ventures.

For the year ended July 31, 1998, payments under operating leases amounted to approximately $3.8 million [1997 - $4.0 million; 1996 - $3.4 million].

[g] Purchase Commitments

As at July 31, 1998, the Company has commitments to purchase fixed assets of approximately $19 million.

[h] Hedging

The Company has net cash inflows denominated in U.S. dollars, German deutschmarks and Italian lira. The Company, including LAP, utilizes foreign exchange forward contracts for the sole purpose of hedging a significant portion of its projected exposure over a six-year period. This exposure is based on U.S. dollar, deutschmark and lira denominated contractual commitments to deliver products to the Company's customers. As at July 31, 1998, the Company had outstanding net foreign exchange forward contracts representing a commitment to sell approximately U.S.$174.5 million, 62.4 million deutschmarks and 44.2 billion lira at weighted average rates of exchange of Cdn.$1.44, Cdn.$0.87 and Cdn.$0.000837, respectively. These contracts mature over the next six years as follows:

	U.S. dollars		Deutschmarks		Italian lira	
	Amount	Rate	Amount	Rate	Amount	Rate
	[Amounts in millions, except lira in billions]					
1999	$ 62.6	$ 1.44	DM20.0	$ 0.86	L15.0	$ 0.000829
2000	37.0	1.42	19.7	0.92	13.9	0.000839
2001	36.3	1.43	16.1	0.85	13.1	0.000845
2002	18.6	1.44	6.6	0.83	2.2	0.000834
2003	14.0	1.47				
2004	6.0	1.47				
	$ 174.5		DM62.4		L44.2	

If the Company's foreign exchange contracts had been closed out at July 31, 1998, the Company would have had to pay approximately $13 million. If these contracts ceased to be effective as hedges [i.e., if projected net cash inflows declined significantly], previously unrecognized gains or losses pertaining to the portion of the hedging transactions in excess of projected foreign denominated cash flows would be recognized in income at the time this condition was identified.

[i] Corporate Constitution

Effective August 1, 1995, the Company's Corporate Constitution requires that a portion of the Company's profits be distributed or used for certain purposes, including but not limited to the following:

- allocation or distribution of 10% of pre-tax profits to employees and/or the Tesma Employee Equity Participation and Profit Sharing Program (including the Tesma International Inc. (Canadian) Deferred Profit Sharing Plan ["Tesma DPSP"] forming part thereof);
- allocation of a minimum of 7% of pre-tax profits to research and development; and
- payment of dividends to shareholders based on a formula of after-tax profits.

9. convertible series preferred shares

The Company is authorized to issue an unlimited number of Preferred Shares in series and has outstanding the following Convertible Series Preferred Shares:

	Number of Shares	
	1998	1997
Preferred Shares, Series 1	-	300,000
Preferred Shares, Series 2	-	200,000
Preferred Shares, Series 3	-	89,750

These shares have the following attributes:

- carrying value of $100 per share;
- 6.5% preferential non-cumulative cash dividend per annum, payable on a fiscal quarterly basis;
- retractable at their carrying value by the holders thereof after August 1, 1997, in the case of the Preferred Shares, Series 1; August 1, 1998, in the case of the Preferred Shares, Series 2; and August 1, 1999, in the case of the Preferred Shares, Series 3;
- redeemable at their carrying value and subject to purchase for cancellation by the Company commencing August 1, 1998; and,
- convertible into Class A Subordinate Voting Shares at a price of $11.025 per share [subject to certain customary antidilutive adjustments].

notes to consolidated financial statements
(continued)

On June 30, 1998, the holders of all remaining Preferred Shares, Series 1, 2 and 3 exercised the conversion rights attached to these shares and they were converted into 5,349,204 Class A Subordinate Voting Shares.

For purposes of accounting for the Convertible Series Preferred Shares three of the key attributes of these shares were valued as of their date of issuance and are presented separately in the Company's consolidated financial statements. These three key attributes are:

[i] the retraction of the Convertible Series Preferred Shares at their carrying value by the holders;

[ii] the non-cumulative cash dividend payable in respect of the Convertible Series Preferred Shares; and

[iii] the ability of the holder to convert the Convertible Series Preferred Shares into Class A Subordinate Voting Shares at a fixed price.

The retraction attribute is a liability of the Company because it is at the option of the holder and, accordingly, it is presented as long-term debt. The non-cumulative nature of the dividend means it is dissimilar to an interest payment on debt and, therefore, the long-term debt is presented as the net present value of (i.e., at a discount to) the carrying value which becomes payable, at the option of the holder, on the dates indicated above. The resultant discount is amortized to income systematically from the date of issuance until the date of retraction for each series of the Convertible Series Preferred Shares.

The non-cumulative dividend, for reasons indicated above, is not considered debt-related. However, because holders of the Convertible Series Preferred Shares expect to receive dividends and it was the Company's expectation, at the date of issuance, to pay dividends, there is a value to the expected stream of dividend payments. The net present value of this expected dividend stream has, therefore, been presented as equity. As dividends are declared, a systematically calculated portion of the dividend is shown as a return of capital and deducted from the amount presented as equity. The dividends on the Convertible Series Preferred Shares as presented in the consolidated statements of income and retained earnings reflect the actual dividend declared net of the amount considered a return of capital.

The third attribute, the conversion feature, is similar to a stock warrant in that it provides holders with the option to exchange their Convertible Series Preferred Shares for Class A Subordinate Voting Shares at a fixed price. The residual approach was used to value this attribute, and this amount is classified as equity in a manner consistent with accounting for stock purchase warrants.

The portion of the Convertible Series Preferred Shares classified as a liability, the amounts reflected as amortization of discount on Convertible Series Preferred Shares, and the portion converted to Class A Subordinate Voting Shares are as follows:

	Preferred Shares			
	Series 1	Series 2	Series 3	Total
	[Canadian dollars in thousands]			
Balance July 31, 1995	$27,321	$17,319	$16,427	$61,067
Amortization of discount	1,308	851	829	2,988
Balance July 31, 1996	28,629	18,170	17,256	64,055
Amortization of discount	1,371	893	788	3,052
Conversion to Class A Subordinate Voting Shares *[i]*			(9,910)	(9,910)
Balance July 31, 1997	30,000	19,063	8,134	57,197
Amortization of discount		857	375	1,232
Conversion to Class A Subordinate Voting Shares *[ii]*	(30,000)	(19,920)	(8,509)	(58,429)
Balance July 31, 1998	**$ -**	**$ -**	**$ -**	**$ -**

The portion of the Convertible Series Preferred Shares included in shareholders' equity is as follows:

	1998	1997
	[Canadian dollars in thousands]	
Warrant portion (relating to conversion feature) *[i], [ii]*	$ -	$ 652
Dividend stream portion (relating to non-cumulative dividends) *[i], [ii]*	-	1,944
	$ -	$ 2,596

[i] On June 5, 1997, Magna International Inc. ["Magna"] converted 110,250 Preferred Shares, Series 3, into 1,000,000 Class A Subordinate Voting Shares at a price of $11.025. The carrying value on the Company's books on that date of $10.9 million (consisting of a debt portion of $9.9 million, a warrant portion of $0.6 million and a dividend stream portion of $0.4 million) has been reflected as the consideration for the Class A Subordinate Voting Shares issued on the conversion.

[ii] On June 30, 1998, Magna and the other three holders (all related to a director of the Company) converted all remaining Convertible Series Preferred Shares into 5,349,204 Class A Subordinate Voting Shares at a price of $11.025 (of which Magna received 4,447,644). The carrying value on the Company's books on that date of $59.5 million (consisting of a debt portion of $58.4 million, a warrant portion of $0.7 million and a dividend stream portion of $0.4 million) has been reflected as the consideration for the Class A Subordinate Voting Shares issued on the conversion.

10. capital stock

[a] Class A Subordinate Voting Shares and Class B Shares

Class A Subordinate Voting Shares without par value [unlimited amount authorized] have the following attributes:

- Each share is entitled to one vote per share at all meetings of shareholders; and,
- Each share shall participate equally as to cash dividends with each Class B Share.

Class B Shares without par value [unlimited amount authorized] have the following attributes:

- Each share is entitled to 10 votes per share at all meetings of shareholders;
- Each share shall participate equally as to cash dividends with each Class A Subordinate Voting Share; and,
- Each share may be converted at any time into fully-paid Class A Subordinate Voting Shares on a one-for-one basis.

notes to consolidated financial statements
(continued)

In the event that either the Class A Subordinate Voting Shares or the Class B Shares are subdivided or consolidated, the other class shall be similarly changed to preserve the relative position of each class.

Outstanding Class A Subordinate Voting Shares and Class B Shares included in shareholders' equity consists of [Canadian dollars in thousands]:

	Class A Subordinate Voting Shares		Class B Shares	
	Number of shares	Consideration	Number of shares	Consideration
Balance July 31, 1995	3,729,155	$ 36,688	14,223,900	$ 2,583
Offering expenses *[i]*		(95)		
Balance July 31, 1996	3,729,155	36,593	14,223,900	2,583
Issuance of Class A Subordinate Voting Shares to the Tesma DPSP *[ii]*	159,920	1,687		
Treasury offering *[iii]*	3,680,000	66,850		
Conversion of Convertible Series Preferred Shares *[Note 9]*	1,000,000	10,931		
Exercise of Incentive Stock Options *[Note 10[b]]*	33,500	352		
Balance July 31, 1997	8,602,575	116,413	14,223,900	2,583
Conversion of Convertible Series Preferred Shares *[Note 9]*	5,349,204	59,484		
Exercise of Incentive Stock Options *[Note 10[b]]*	330,500	3,470		
Balance July 31, 1998	**14,282,279**	**$ 179,367**	**14,223,900**	**$ 2,583**

[i] In 1996, additional expenses of the Company's initial public offering of $95, net of deferred taxes of $54 were incurred. These amounts are shown as a reduction of the consideration on the Class A Subordinate Voting Shares in 1996.

[ii] In respect of a portion of the Company's funding obligation to the Tesma DPSP for 1996 (as described in Note 8[i]), 159,920 Class A Subordinate Voting Shares were issued to The Canada Trust Company, as trustee of the Tesma DPSP at $10.55 per share.

[iii] Details of the proceeds from the 1997 treasury offering of Class A Subordinate Voting Shares are as follows:

	[Canadian dollars in thousands]
Total proceeds - 3,680,000 shares at $18.75 per share	$ 69,000
Underwriters' fee	(2,760)
Other expenses of the issue	(599)
Tax savings in respect of above fee and expenses	1,209
Net proceeds	$ 66,850

[b] Incentive Stock Option Plan

Under the 1995 Incentive Stock Option Plan adopted by the Company on July 19, 1995, as amended and subsequently approved by the shareholders on December 4, 1996, the Company may grant options to purchase Class A Subordinate Voting Shares to present and future officers, directors, other full-time employees or consultants of the Company. The maximum number of shares reserved to be issued for options is 3,000,000 subject to certain adjustments. The number of unoptioned shares available to be reserved at July 31, 1998 was 1,105,000 [1997 – 1,212,500].

The following is a continuity schedule of the options outstanding:

	Number	Range of Exercise Price	Weighted Average Exercise Price	Options Exercisable
Balance, July 31, 1995	800,000	$ 10.50	$ 10.50	160,000
Options granted	150,000	$ 10.50	$ 10.50	
Balance, July 31, 1996	950,000	$ 10.50	$ 10.50	470,000
Options granted	837,500	$ 10.50	$ 10.50	
Options exercised	(33,500)	$ 10.50	$ 10.50	
Balance, July 31, 1997	1,754,000	$ 10.50	$ 10.50	864,000
Options granted	107,500	$ 21.70 - $22.50	$ 22.35	
Options exercised	(330,500)	$ 10.50	$ 10.50	
Balance, July 31, 1998	1,531,000	$ 10.50 - $22.50	$ 11.33	857,500

notes to consolidated financial statements
(continued)

All options granted are for a term of ten years from the date of grant. In general, options vest 20% on the date of the grant and 20% on each of the following four anniversaries of the grant date. However, all options granted in fiscal 1996 vested immediately and 750,000 of the options granted in 1997 vest 33 1/3% on the grant date and 16 2/3% on each of the following four anniversaries of the grant.

[c] Maximum Number of Shares

The following table presents the maximum number of shares that would be outstanding if all the outstanding options at July 31, 1998 were exercised.

	Number of shares
Class A Subordinate Voting Shares outstanding at July 31, 1998	14,282,279
Class B Shares outstanding at July 31, 1998	14,223,900
Options to purchase Class A Subordinate Voting Shares	1,531,000
	30,037,179

11. earnings per share

[a] Basic Earnings Per Share

Earnings per Class A Subordinate Voting Share or Class B Share have been calculated using the weighted average number of Class A Subordinate Voting Shares outstanding during the year, plus the weighted average number of Class B Shares outstanding during the year.

[b] Adjusted Basic Earnings Per Share

Adjusted basic earnings per share are calculated on the same basis as basic earnings per share, except that the Convertible Series Preferred Shares are assumed to be converted at the beginning of the fiscal year during which their conversion occurred.

	1998	1997	1996
Adjusted basic earnings per Class A Subordinate Voting Share or Class B Share	**$ 1.09**	$ 1.29	$ 1.03
Adjusted basic average number of Class A Subordinate Voting Shares and Class B Shares outstanding during the year *[millions]*	**28.3**	19.7	18.0

[c] Fully Diluted Earnings Per Share

The calculation of fully diluted earnings per share assumes that, if a dilutive effect is produced, all Convertible Series Preferred Shares had been converted, and all outstanding options had been exercised at the later of the beginning of the year and the issue date. There is an allowance for imputed earnings equal to the amortization of the discount on the Convertible Series Preferred Shares, plus the dividends declared less the portion considered a return of capital and imputed after-tax earnings on the proceeds that would be received through the assumed exercise of the stock options based on an assumed after-tax rate of return of 3.0% for the year ended July 31, 1998 [1997 - 2.7%; 1996 - 3.8%].

12. currency translation adjustment

The following is a continuity schedule of the currency translation adjustment account included in shareholders' equity:

	1998	1997
	[Canadian dollars in thousands]	
Balance, beginning of year	**$ (2,382)**	$ 2,873
Translation adjustments	**4,820**	(5,255)
Balance, end of year	**$ 2,438**	$ (2,382)

Unrealized translation adjustments, which arise on the translation to Canadian dollars of assets and liabilities of the Company's self-sustaining foreign operations, resulted in an unrealized currency translation gain of $4.8 million [1997 - loss of $5.3 million] primarily from the strengthening of the German deutschmark and other European currencies against the Canadian dollar during the year.

13. research and development

Research and development expenditures, net of amounts funded by governments or customers, for the year ended July 31, 1998 were $14.1 million [1997 - $13.1 million; 1996 - $8.7 million].

14. details of cash from operating activities

[a] Items not involving current cash flows

Items not involving current cash flows consist of:

	1998	1997	1996
	[Canadian dollars in thousands]		
Depreciation and amortization	**$ 23,676**	$ 19,058	$ 14,829
Amortization of discount on Convertible Series Preferred Shares	**1,232**	3,052	2,988
Deferred income taxes	**1,377**	2,290	1,087
Other	**2,371**	2,415	1,279
	$ 28,656	$ 26,815	$ 20,183

[b] Net change in non-cash working capital

The net change in non-cash working capital consists of:

	1998	1997	1996
	[Canadian dollars in thousands]		
Accounts receivable	**$ (7,457)**	$ (18,803)	$ (12,242)
Inventories	**(9,368)**	695	(4,102)
Prepaid expenses and other	**1,385**	(2,369)	1,459
Accounts payable and other accrued liabilities	**10,213**	5,131	4,895
Accrued salaries and wages	**(1,576)**	729	4,434
Income taxes payable (receivable)	**1,707**	(7,769)	3,502
	$ (5,096)	$ (22,386)	$ (2,054)

notes to consolidated financial statements
(continued)

15. financial instruments

[a] Fair Value

The Company has determined the estimated values of its financial instruments based on appropriate valuation methodologies. However, considerable judgment is required to develop these estimates. Accordingly, these estimated values are not necessarily indicative of the amounts the Company could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies. The methods and assumptions used to estimate the fair value of each class of financial instrument are discussed below.

Short-term financial assets and liabilities, including cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, are valued at their carrying amounts as presented in the consolidated balance sheets. The carrying values are reasonable estimates of fair value due to the short period to maturity of the financial instruments.

Fair value information is not readily available for the Company's other assets. However, management believes the market value of investments to be in excess of the carrying value. The carrying value of other long-term monetary assets are estimated using current rates and approximate the carrying value for all years.

Rates currently available to the Company for long-term debt with similar terms and remaining maturities have been used to estimate the fair value of the long-term debt which approximates the carrying value for all years.

The Company enters into foreign currency forward contracts to manage foreign exchange risk. If the Company did not use forward contracts, its exposure to financial risks would be higher. The Company does not enter into forward contracts for speculative purposes. The fair value of foreign exchange forward contracts reflects the estimated amounts that the Company would receive or pay to effectively terminate the contracts at the reporting date, thereby taking into account the current unrealized gains or losses on the open contracts. The fair value of these financial instruments, none of which is recorded, is discussed in Note 8[h].

[b] Credit Risk

The Company's financial assets that are exposed to credit risk consist primarily of cash, accounts receivable and foreign exchange forward contracts.

The Company, in the normal course of business, is exposed to credit risk from its customers substantially all of which are in the automotive industry. These accounts receivable are subject to normal industry credit risks.

Cash which consists of short-term investments, including commercial paper and certified deposits, is only invested in governments and corporations with a minimum credit rating of R1 (low) by the Dominion Bond Rating Service ["DBRS'] or its equivalent and in the United States, banks with a Financial Strength Rating of A by Moody's Investors Service or its equivalent. Credit risk is further reduced by limiting the amount which is invested in any one government or corporation.

The Company is also exposed to credit risk from the potential default by any of its counterparties on its foreign exchange forward contracts. The Company mitigates this credit risk by dealing only with counterparties which are Canadian banks with a minimum credit rating of R1 (mid) by the DBRS or its equivalent and which are included on an authorized list of counterparties maintained by the Company. The Company also monitors its relative positions with each counterparty. The maximum credit risk, based on the theoretical amount, term and exchange rates, amounts to approximately $3 million. This risk is divided amongst five financial institutions. The Company does not anticipate non-performance by any of the counterparties to their contractual obligations.

[c] Interest Rate Risk

The Company has historically not utilized interest rate swap agreements to reduce the impact of changes in interest rates upon its floating rate debt as the amount which is floating has been at more favourable rates.

The following table summarizes the Company's exposure to interest rate risk as at July 31, 1998:

		Fixed interest rate maturing in				
	Floating rate	1 year or less	1 to 5 years	More than 5 years	Non-interest bearing	Total
Financial assets:						
Cash	$ 43,998					$ 43,998
Accounts receivable and all other receivables					$ 90,340	90,340
Financial liabilities:						
Bank indebtedness	(6,002)					(6,002)
Accounts payable and all other accrued liabilities and payables					(92,276)	(92,276)
Long-term debt	(10,674)	$ (850)	$ (3,991)	$ (1,909)	(631)	(18,055)
	$ 27,322	$ (850)	$ (3,991)	$ (1,909)	$ (2,567)	$ 18,005
Average fixed rate of long-term debt		6.78%	5.65%	6.69%		

notes to consolidated financial statements
(continued)

16. segmented information

The Company's operations are substantially all related to the automotive industry. Operations include the manufacture of automobile parts for original equipment manufacturers as well as products for the after-market. Substantially all of the Company's revenues are derived from sales to North American and European facilities of the major automobile manufacturers. For the year ended July 31, 1998, sales to the Company's four largest customers amounted to 30%, 19%, 12% and 7% of total sales [1997 - 31%, 19%, 11% and 8%; 1996 - 31%, 19%, 12% and 8%].

The following table shows certain information with respect to geographic segmentation:

	Canada	Europe	United States & other	Elimination	Total
			[Canadian dollars in thousands]		
July 31, 1998					
Sales *[i]*	$ 459,334	$ 179,449	$ 7,111		$ 645,894
Intersegment	70	4,092		$ (4,162)	
Total sales	$ 459,404	$ 183,541	$ 7,111	$ (4,162)	$ 645,894
Income before income taxes	$ 39,600	$ 10,334	$ 398		$ 50,332
Assets	$ 289,749	$ 101,893	$ 7,689		$ 399,331
July 31, 1997					
Sales *[i]*	$ 416,790	$ 134,728			$ 551,518
Intersegment		4,391		$ (4,391)	
Total sales	$ 416,790	$ 139,119		$ (4,391)	$ 551,518
Income before income taxes	$ 39,029	$ 6,688			$ 45,717
Assets	$ 273,189	$ 76,306			$ 349,495
July 31, 1996					
Sales *[i]*	$ 348,576	$ 107,004			$ 455,580
Intersegment		3,507		$ (3,507)	
Total sales	$ 348,576	$ 110,511		$ (3,507)	$ 455,580
Income before income taxes	$ 34,735	$ 552			$ 35,287
Assets	$ 196,813	$ 61,608			$ 258,421

[i] Canadian sales include the following export sales:

	1998	1997	1996
		[Canadian dollars in thousands]	
United States	$ 295,824	$ 264,670	$ 228,087
Europe	74,558	65,135	51,510
Other	44,012	42,987	30,808
	$ 414,394	$ 372,792	$ 310,405

17. related party transactions

The Company completed transactions with Magna and other companies under Magna's control during the year as follows:

	1998	1997	1996
		[Canadian dollars in thousands]	
Sales	$ 13,509	$ 14,222	$ 14,665
Purchases of materials	$ 6,088	$ 5,547	$ 5,444
Interest, affiliation fees and other charges	$ 8,440	$ 11,605	$ 10,159

The outstanding balances related to these transactions at the end of the year are as follows:

	1998	1997
	[Canadian dollars in thousands]	
Accounts receivable	$ 1,094	$ 1,638
Accounts payable	$ 2,160	$ 2,061

The Company is party to an affiliation agreement with Magna that provides for the payment by the Company of an affiliation fee and certain other negotiated charges in exchange for, among other things, Magna granting the Company a non-exclusive world-wide license to use certain Magna trademarks, and Magna providing certain management and administrative services to the Company. The affiliation fee is computed solely as a specified percentage of consolidated net sales of the Company. The current affiliation agreement came into effect for a five year term commencing August 1, 1997. Other charges will continue to be negotiated annually and will be based on the level of benefits or services provided by Magna to the Company. Additionally, under the terms of the social fee agreement, the Company must pay Magna a fee based on a specified percentage of pretax profits before profit sharing (after adjustments to add back certain amounts specified in the agreement). These fees represent a contribution to social and charitable programs coordinated by Magna on behalf of Magna and its affiliated companies including the Company.

Sales to and purchases from Magna and the resulting accounts receivable and payable balances are typically effected on normal commercial terms.

notes to consolidated financial statements
(continued)

18. litigation settlement

In October 1997, the Company signed a settlement agreement with Stant Manufacturing Inc. ["Stant"] relating to a July 1997 verdict which upheld three U.S. patents owned by Stant. The settlement permits the Company to continue to supply fuel caps for the duration of a pre-existing long- term supply contract with an OEM. The Company recorded a $9.1 million provision for all costs relating to the settlement.

19. contingencies

[a] Year 2000 Issue

The Year 2000 ["Y2K"] issue arises because many computerized systems use two digits rather than four to identify a year. Date sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in erroneous processing. The effects of the Y2K issue may be experienced on or before January 1, 2000, and if not addressed, may have an impact on the financial reporting and operations of the Company. The effect could range from minor errors to complete failures, which could adversely affect the normal business operations of the Company. The Company in conjunction with Magna has addressed this issue and is currently working on identifying potential complications. However, it is not possible to ascertain all the potential effects of all aspects of the Y2K issue, including its effect on customers, suppliers and other third parties. There exists the possibility that all of these issues may not be resolved before the Year 2000.

[b] General

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims with customers, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to estimate the extent of potential costs and losses, if any, management believes, but can provide no assurance, that the ultimate resolution of such contingencies would not have a material adverse effect on the consolidated financial position of the Company.

20. united states generally accepted accounting principles

The Company's consolidated financial statements are prepared using accounting policies generally accepted in Canada ["Canadian GAAP"] which conform with accounting principles generally accepted in the United States ["United States GAAP"] except for the following:

[a] Deferred Taxes

Under United States GAAP the income tax provision would be calculated using the liability rate method.

[b] Earnings Per Share

The calculation of basic earnings per share would be calculated using the weighted average number of common shares outstanding during the year. The calculation of diluted earnings per share requires the use of the treasury stock method to calculate the weighted average number of outstanding shares, if there is a dilutive effect on the assumed exercise of stock options.

[c] Employee Share Loans

Loans to employees which were provided for the purpose of purchasing Class A Subordinate Voting Shares would be shown as a reduction of the Class A Subordinate Voting Shares.

[d] Financial Instruments

Under United States GAAP, the Company would not have accounted for the Convertible Series Preferred Shares as part equity and part debt based on its three key attributes as required under Canadian GAAP. Under Canadian GAAP, the dividend on the Convertible Series Preferred Shares is presented net of an assumed return of capital and the discount on the portion of the Convertible Series Preferred Shares classified as debt is amortized to income. Under United States GAAP, the entire dividend is presented on the consolidated statements of income and because the financial instrument would be recorded at its face value as debt, no amounts would be reflected as a return of capital, nor would any discount be amortized to the consolidated statements of income.

[e] Deferred Preproduction Costs

Under United States GAAP, the Company would have expensed all preproduction costs as incurred.

[f] Joint Ventures

The Company would account for its investment in its joint ventures using the equity method. However, a reconciliation from the proportionate consolidation method to the equity method of accounting for the Company's investment in its joint ventures has not been provided as it is not required under United States securities regulations.

notes to consolidated financial statements
(continued)

[g] Statements of Income

The following table presents net income and earnings per share information following United States GAAP:

	1998	1997	1996
	[Canadian dollars in thousands]		
Net income attributable to Class A Subordinate Voting Shares and Class B Shares under Canadian GAAP	$ 26,778	$ 24,614	$ 18,539
Adjustments:			
Income tax provision adjustment under the liability rate method	-	-	(270)
Return of capital on Convertible Series Preferred Shares	(1,542)	(2,811)	(2,609)
Amortization of discount on Convertible Series Preferred Shares	1,232	3,052	2,988
Deferred preproduction costs	(1,790)	-	-
Net income attributable to Class A Subordinate Voting Shares and Class B Shares under United States GAAP	$ 24,678	$ 24,855	$ 18,648
Earnings per Class A Subordinate Voting Share or Class B Share			
Basic	$ 1.05	$ 1.32	$ 1.04
Diluted	$ 1.00	$ 1.15	$ 0.91
Weighted average number of Class A Subordinate Voting Shares and Class B Shares outstanding during the year *[in millions]*			
Basic	23.4	18.8	18.0
Diluted	29.1	25.6	24.3

[h] Balance Sheet Items

Under United States GAAP, the Company's deferred tax liabilities consist of the following temporary differences:

	1998	1997
	[Canadian dollars in thousands]	
Tax deferred income	$ 9,798	$ 10,242
Tax depreciation in excess of book depreciation	13,811	11,901
Tax losses	(11,406)	(10,313)
Valuation allowance	8,501	7,408
	$ 20,704	$ 19,238

The following table presents shareholders' equity under United States GAAP:

	1998	1997
	[Canadian dollars in thousands]	
Class A Subordinate Voting Shares	$ 178,953	$ 116,264
Class B Shares	2,583	2,583
Retained earnings	76,619	57,355
Currency translation adjustment	2,438	(2,382)
	$ 260,593	$ 173,820

[i] Statements of Cash Flows

Under United States GAAP investing and financing activities that do not result in cash receipts or cash payments would not be reported in the consolidated statements of cash flows. Consequently under United States GAAP the issuance of Class A Subordinate Voting Shares and the conversion of Convertible Series Preferred Shares would both be reduced by $58.4 million and $9.9 million in 1998 and 1997, respectively, representing the conversion of Convertible Series Preferred Shares during these years as discussed in Note 9.

[j] Stock Based Compensation

The Company continues to measure compensation cost related to awards of stock options using the intrinsic value based method of accounting as prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees" as permitted by SFAS 123. In this instance, however, under SFAS 123 "Accounting for Stock Based Compensation", the Company is required to make proforma disclosures of net income attributable to Class A Subordinate Voting Shares and Class B Shares and basic and diluted earnings per Class A Subordinate Voting Share or Class B Share as if the fair value method of accounting had been applied.

The fair value of the stock options is estimated at the date of grant using the Black Scholes option pricing model with the following weighted average assumptions:

	1998	1997	1996
Risk free interest rate	5.2%	5.7%	6.2%
Expected dividend yield	1.3%	2.5%	2.5%
Expected volatility	27%	25%	24%
Expected life of options	5	5	4

The Black Scholes option valuation model used by the Company to determine fair values, as well as other currently accepted option valuation models were developed for use in estimating the fair value of freely traded options which are fully transferable and have no vesting restrictions. In addition, this model requires the input of highly subjective assumptions, including future stock price volatility and expected time until exercise. Because the Company's outstanding stock options have characteristics which are significantly different from those of traded options, and because changes in any of the assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

notes to consolidated financial statements
(continued)

Accordingly, for purposes of proforma disclosures, the Company's net income attributable to Class A Subordinate Voting Shares and Class B Shares and basic and diluted earnings per Class A Subordinate Voting Share or Class B would have been:

	1998	1997	1996
Proforma net income attributable to Class A Subordinate Voting Shares and Class B Shares	$ 24,194	$ 23,860	$ 18,504
Proforma earnings per Class A Subordinate Voting Share or Class B Share			
Basic	$ 1.03	$ 1.27	$ 1.03
Diluted	$ 0.98	$ 1.12	$ 0.91

[k] Recently Issued Pronouncements

Under SAB 74, the Company is required to disclose certain information related to new accounting standards which have not yet been adopted due to delayed effective dates. Specifically, SFAS 130 "Comprehensive Income" and SFAS 131 "Disclosures about Segments of an Enterprise and Related Information" are effective for fiscal periods beginning after December 15, 1997. Additionally, SFAS 133 "Accounting for Derivative Instruments and Hedging Activities", is effective for fiscal periods beginning after June 15, 1999. The Company has not yet determined the impact, if any, of SFAS 130, 131 and 133 on its consolidated financial statements.

21. comparative consolidated financial statements

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to The Canadian Institute of Chartered Accountants new recommendations with respect to the presentation and disclosure of financial instruments and to conform to the presentation of the 1998 consolidated financial statements.

22. subsequent event

On September 3, 1998, the Company signed an agreement to purchase 100% of the outstanding shares of Triam Automotive Corporation ["Triam"] from Magna. Triam is a U.S. based manufacturer of powertrain and other components for the automotive industry. The purchase price consists of a $36 million payment on closing, less assumed long-term debt and other indebtedness, and an earnout of up to $4 million contingent on Triam attaining certain predetermined levels of earnings before interest, taxes, depreciation and amortization.

7 year financial summary and quarterly information

operations data

	Years Ended July 31						
	1992	1993	1994	1995	1996	1997	**1998**
	[Canadian dollars in thousands, except per share figures]						
Sales	$ 167,667	$ 223,761	$ 280,343	$ 344,908	$ 455,580	$ 551,518	**$ 645,894**
Income before litigation settlement, equity losses, income taxes and minority interest	7,893	25,283	31,707	30,916	35,287	45,717	**59,464**
Net income	6,833	22,278	19,497	14,807	19,495	26,478	**29,654**
Net income attribute to Class A Subordinate Voting Shares and Class B Shares	6,833	22,278	19,497	14,807	18,539	24,614	**26,778**
Earnings per Class A Subordinate Voting Share or Class B Share							
Basic	$ 0.48	$ 1.57	$ 1.37	$ 1.04	$ 1.03	$ 1.31	**$ 1.14**
Fully Diluted	$ 0.48	$ 1.57	$ 1.37	$ 1.03	$ 0.91	$ 1.13	**$ 1.05**
Average number of Class A Subordinate Voting Shares and Class B Shares outstanding							
Basic	14,223,900	14,223,900	14,223,900	14,223,900	17,953,055	18,809,515	**23,425,123**
Fully diluted	14,223,900	14,223,900	14,223,900	14,450,036	25,124,042	26,604,984	**30,016,657**
Cash flow from operating activities	$ 9,650	$ 37,616	$ 24,128	$ 30,252	$ 37,624	$ 30,907	**$ 53,214**
Cash dividends paid per Class A Subordinate Voting Share or Class B Share *(1)*	-	-	-	-	$ 0.15	$ 0.20	**$ 0.22**

financial position

	As at July 31						
	1992	1993	1994	1995	1996	1997	**1998**
	[Canadian dollars in thousands, except debt to equity ratio]						
Cash (net of bank indebtedness)	$ 2,874	$ 5,533	$ (3,022)	$ 37,898	$ 28,641	$ 68,341	**$ 37,996**
Total assets	78,009	101,554	127,448	245,798	258,421	349,495	**399,331**
Capital Expenditures	2,406	7,123	15,778	28,318	29,175	48,052	**64,960**
Long-term debt (excluding current portion)	59,064	48,183	34,448	20,230	15,934	13,358	**14,019**
Convertible Series Preferred Shares	-	-	-	61,067	64,055	57,197	**-**
Shareholders' equity (deficit)	(15)	20,181	38,704	71,711	83,430	174,931	**261,473**
Equity per Class A Subordinate Voting Share or Class B Share *(2)*	-	-	-	$ 3.99	$ 4.65	$ 7.66	**$ 9.17**
Long-term debt (excluding current portion) to equity ratio	N/A	2.37:1	0.88:1	0.28:1	0.19:1	0.08:1	**0.05:1**

(1) excluding all dividends paid prior to the completion of Company's Initial Public Offering in July 1995.
(2) numbers prior to the completion of the Company's Initial Public Offering in July 1995 are not meaningful.

quarterly financial information (unaudited)

[Canadian dollars in thousands, except per share figures]

Fiscal 1998	**October 31**	**January 31**	**April 30**	**July 31**	**Total**
Sales	$ 153,429	$ 149,390	$ 181,711	$ 161,364	$ 645,894
Income before income taxes'	6,996	13,342	18,966	11,028	50,332
Net income	3,471	8,037	11,273	6,873	29,654
Basic earnings per Class A or B share	$ 0.13	$ 0.31	$ 0.46	$ 0.24	$ 1.14
Fully diluted earnings per Class A or B share	$ 0.13	$ 0.29	$ 0.39	$ 0.24	$ 1.05

Fiscal 1997	**October 31**	**January 31**	**April 30**	**July 31**	**Total**
Sales	$ 136,306	$ 118,020	$ 150,882	$ 146,310	$ 551,518
Income before income taxes	11,874	10,933	13,419	9,491	45,717
Net income	6,723	6,008	8,013	5,734	26,478
Basic earnings per Class A or B share	$ 0.35	$ 0.30	$ 0.42	$ 0.24	$ 1.31
Fully diluted earnings per Class A or B share	$ 0.30	$ 0.26	$ 0.34	$ 0.23	$ 1.13

shareholder information

Tesma Shares and Stock Exchange Listings

The Class A Subordinate Voting Shares ["Class A Shares"] of the Company are listed on the Toronto Stock Exchange ["TSE"] under the symbol TSM.A and on the NASDAQ National Market ["NASDAQ"] under the symbol TSMAF. The Class B shares are not listed for trading.

Issued and outstanding shares as at July 31, 1998 were as follows:

Class A Subordinate Voting Shares	14,282,279
Class B Shares	14,223,900

The share classes have a different number of votes per share. There are 10 votes per Class B share and one vote per Class A Subordinate Voting Share.

Magna owns directly and indirectly, all Class B shares and 4,447,644 of the Class A Subordinate Voting Shares carrying approximately 93.7% of the total votes attaching to all outstanding shares which gives them control of the Company.

As of September 30, 1998, there were 111 registered holders of Class A Shares. Trading statistics for the Company's Class A Subordinate Voting Shares during the past two years have been as follows:

Canada (TSE) ($CDN)

1998 Quarter	Volume	High	Low	Close
1st	1,158,239	24.00	20.55	22.00
2nd	691,201	23.25	17.00	18.75
3rd	1,820,655	22.00	18.25	20.50
4th	291,661	21.00	19.00	19.75

1997 Quarter	Volume	High	Low	Close
1st	447,625	12.15	9.00	12.05
2nd	1,107,700	19.80	11.00	18.50
3rd	413,600	20.10	17.30	19.05
4th	2,073,499	22.75	18.00	22.75

United States (NASDAQ) ($US)

1998 Quarter	Volume	High	Low	Close
1st	42,600	17 1/4	14 1/2	15 3/4
2nd	12,700	16 1/4	12 1/4	14
3rd	14,300	16 1/2	12 1/4	16 1/2
4th	17,400	15 1/2	12 7/8	16

1997 Quarter	Volume	High	Low	Close
1st	76,940	8 3/4	6 3/4	8 3/4
2nd	236,824	15	8 1/2	13 3/4
3rd	110,716	15	12 3/4	13 5/8
4th	60,392	16 3/4	12 7/8	13

Distribution of Shares

Country	%
Canada	92.0
United States	1.6
Other	6.4

Country	%
Canada	78.0
United States	11.0
Other	11.0

Dividends

The Company pays cash dividends on a quarterly basis. Each of the Class A Subordinate Shares and Class B Shares participate equally as to dividends. Effective with the July 15, 1998 dividend payment, the current quarterly dividend rate was set at 7¢ per share, prior to this date and since the Company's initial public offering the rate had been 5¢ per share. Dividends are paid on or about the 15th of January, April, July and October in each fiscal year with a record date on or about the last business day of December, March, June and September.

Registrar and Transfer Agent

Canada - Class A
Montreal Trust Company of Canada, Toronto
United States - Class A
The Bank of Nova Scotia Trust Company of New York, New York

Auditors

Ernst & Young,
Toronto, Canada

Principal Bankers

Canadian Imperial Bank of Commerce,
Toronto, Canada

Corporate Office

300 Edgeley Blvd.
Concord, Ontario, Canada L4K 3Y3
Telephone: 905 669-5444
Telefax: 905 738-4888

Form 20-F

The Company files annually with the Securities and Exchange Commission of the United States a report known as Annual Report or Form 20-F. Copies of the Form 20-F are available to shareholders, free of charge, upon written request to the Company.

Corporate Governance

A statement of Tesma's policy with respect to corporate governance is included in the information circular enclosed with the annual report mailed to shareholders.

Investor Information

Registered shareholders of the Company automatically receive the annual report, the Annual Information Form, Quarterly Reports, the Management Proxy Circular relating to the Annual General Meeting and any other important notices distributed to shareholders by the Company.

Others seeking assistance or information about the Company are requested to contact Anthony E. Dobranowski, Executive Vice President & Chief Financial Officer at:

300 Edgeley Boulevard
Concord, Ontario, Canada L4K 3Y3
Telephone: 905 669-7355
Telefax: 905 669-0673

Officers

Manfred Gingl, President & Chief Executive Officer

Anthony E. Dobranowski, Executive Vice President & Chief Financial Officer

David J. Carroll, Vice President, Planning & Corporate Development

Pat Cerullo, Vice President, Sales & Marketing

Stefan T. Proniuk, Vice President, Secretary & General Counsel

Franz Reiterer, Vice President, Manufacturing

James L. Moulds, Controller

Annual and Special Meeting of Shareholders

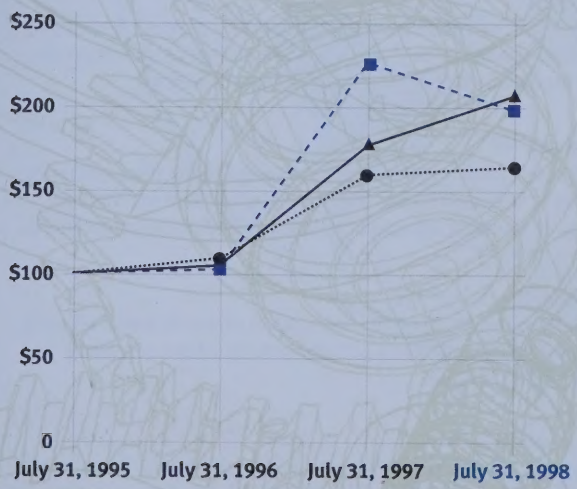
10:30 a.m., Tuesday, December 1, 1998
Salon A, Royal York Hotel
100 Front Street West, Toronto, Ontario, Canada

Website

Look for our new website coming this fall at:

www.tesma.com

Growth and Market Value of Investment in Tesma

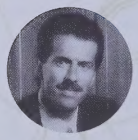


Assuming an investment of $100 and the reinvestment of dividends, this chart depicts the growth in market value for the last three years of Tesma's Class A Subordinate Voting Shares, compared to the TSE 300 and the TSE Auto Parts Sub-Index. Tesma's shares have performed well compared to these indices.

legend

- Tesma Class A Subordinate Voting Shares
- TSE 300 Total Return Index
- TSE Auto Parts Total Return Sub-Index

board of directors



Don Walker President & CEO, Magna International Inc. [1][3]
Don Walker joined Magna International in 1987 as Assistant to the Chairman, Frank Stronach. In 1995 he became President and Chief Executive Officer and is a member of the Board of Directors. Mr. Walker graduated from the University of Waterloo and sits on several boards.

Manfred Gingl President & CEO, Tesma International Inc.
Prior to his nomination as president at Tesma, Mr. Gingl served as Managing Director of Blau Europe and as President of Blau North America and also served as President and Chief Executive Officer of Magna from 1981 to 1993.

Georg Grammer President, Grammer AG
Georg Grammer has been instrumental in the success of Grammer AG, a German publicly traded company. Grammer is one of the worldwide leaders in manufacturing office seating systems and seats for industrial and automotive applications.

Oscar B. Marx III President & CEO, TMW Enterprises [5]
Mr. Marx has over twenty-four years experience in the automotive industry, the majority of which was spent in senior positions at Ford Motor Company. At TMW Enterprises he is responsible for strategy development and implementation. Mr. Marx graduated from Princeton University and sits on several boards.

J. Robert S. Pritchard President, University of Toronto [4][5]
Professor Pritchard is the thirteenth President of the University of Toronto. Prior to assuming the presidency, he was Dean of the Faculty of Law at the University of Toronto and has also taught at the Yale and Harvard Law Schools. Professor Pritchard sits on the boards of several charitable organizations and major corporations.

Robert K. Rae Partner, Goodman Phillips & Vineberg [4]
As a partner at the law firm of Goodman Phillips & Vineberg, Mr. Rae represents major clients in manufacturing, financial services and infrastructure. He led the New Democratic Party of Ontario for fourteen years and served as Premier of Ontario before retiring from politics in 1996.

Frank Stronach Chairman of the Board, Magna International Inc.
Frank Stronach is the founder and Chairman of Magna International Inc. His management philosophy is based on a business Charter of Rights which makes every employee a shareholder in the Company. Mr. Stronach co-ordinates global strategies for Magna regarding technology, marketing, product development and key management.

Judson D. Whiteside Partner, Miller Thomson [2]
Mr. Whiteside's experience in corporate and commercial law includes expertise in direct sales law, sports law and computer law. Mr. Whiteside has been a member of the Executive Committee of Miller Thomson since 1982 and is currently Chairman and Chief Executive Officer of the firm.

(1) Chairman of the Board
(2) Chairman of the Audit Committee
(3) Chairman of the Human Resources and Compensation Committee
(4) Member of the Audit Committee
(5) Member of the Human Resources and Compensation Committee

Tesma around the world

● manufacturing ● sales & engineering offices

detroit sales office: Tesma International Inc., 26400 Lahser Road, Suite 225, Southfield, Michigan, USA, 48034
telephone: 248.353.5548 telefax: 248.353.4145

european sales offices: Tesma Motoren-Und Getriebetechnik Ges.m.b.H., Industriestrasse 4, 8160, Weiz, Austria
telefon: 011-43-3172-59000 telefax: 011-43-3172-590041

Tesma Europa GmbH, Gebäude C, Industriestrasse 23, D-41516 Grevenbroich
telefon: (02182) 82 14 20 telefax: (02182) 82 14 22

300 Edgeley Boulevard, Concord, Ontario, Canada L4K 3Y3
telephone: 905.669.5444 telefax: 905.738.4888

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